

City of Johnson City, Tennessee

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2006



Prepared by:

Finance Department

Janet Jennings, CPA, Director of Finance

CITY OF JOHNSON CITY, TENNESSEE

BASIC FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION WITH

INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2006

CITY OF JOHNSON CITY, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

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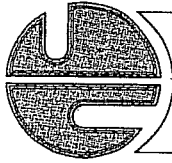
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City of Johnson City Tennessee

601 East Main Street • P.O. Box 2150 • Johnson City, TN 37605 • (423)434-6000

OFFICE OF RECORDER/TREASURER

December 15, 2006

To the Honorable Mayor, Members of the Board of Commissioners, City Manager and Citizens of the City of Johnson City, Tennessee:

The Comprehensive Annual Financial Report of the City of Johnson City for the fiscal year ended June 30, 2006 is submitted hereby, in accordance with the provisions of Section 2.89 of the Johnson City Code. This report consists of the City's representations concerning the finances of the City of Johnson City. Consequently, the City assumes full responsibility for the completeness and reliability of all of the information presented in this report. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial structures have been included.

The Comprehensive Annual Financial Report is presented in four sections. Part I, The Introductory Section, includes a table of contents, this letter, the Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart and a list of principal officers. Part II, The Financial Section, includes the independent auditors' report, management's discussion and analysis, statements for the City's major funds and component units, notes to the financial statements, statements for the City's non-major funds and governmental fund capital asset schedules. Part III, The Statistical Section, contains selected financial and general data for prior and current periods. The City is required to undergo an annual single audit in conformity with the Single Audit Act of 1984 and the United States Office of Management and Budget Circular A-128, Audits of State and Local Governments. Information related to this single audit, including the findings and recommendations and the auditor's reports on the internal controls and compliance with applicable laws and regulations, are included in Part IV of this report, entitled Compliance.

This report includes all funds of the City, as well as all of its component units. Component units are legally separate entities for which the City is financially accountable. The following are discretely presented in the financial statements to emphasize that they are legally separate from the City: Johnson City Public Library and the Johnson City Development Authority. The Johnson City Public Building Authority is presented as a blended component unit of the City. In addition, the State of Tennessee requires the Power Board to be included in the City's financial statements since the fund was formed under a private act.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Johnson City's MD&A can be found immediately following the report of the independent auditors.

Financial Information

Management of the City is responsible for establishing and maintaining internal control designed to ensure that all assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and county financial assistance, the City also is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. The internal controls are subject to periodic evaluation by management and the accounting staff of the City.

As a part of the City's single audit, previously described, tests are made to determine the adequacy of the internal controls, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations.

Independent Audit. The City Charter requires that an annual audit be made of the accounts, financial records and transactions of the City departments by a Certified Public Accountant. This fiscal year, the Certified Public Accounting Firm of Blackburn, Childers and Steagall, PLC audited all the City funds, except the Johnson City Schools Site-Based Fund, and that work has been incorporated into this financial report.

Budgeting Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Activities of the General Fund, Special Revenue Funds, Debt Service Fund, Internal Service Funds, Enterprise Funds and four Capital Project Funds are included in the annual appropriated budget. Project-length financial plans are adopted for all Capital Project Funds. The level of budgetary control is established on the department or activity level within an individual fund.

Profile of the Government

Policy-making and legislative authority are vested in the Board of Commissioners, consisting of the mayor and four other members. The Commission is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees and hiring the City's manager. The City's manager is responsible for carrying out the policies and ordinances of the Commission, for over-seeing the day-to-day operations of the City and for appointing the heads of departments. The Commission is elected on a non-partisan basis. Board members serve four-year staggered terms, with an election every two years. The mayor is elected to serve a two-year term.

The City provides a full range of services as directed by its charter and includes police and fire protection, park and recreation activities, schools, a senior citizen's center, street construction and maintenance, planning and zoning and general administrative services. In addition, water and sewer, electric power, transit service, garbage pick-up, landfill and golf are provided under the enterprise fund concept.

Economic Condition and Outlook

Johnson City, along with Kingsport and Bristol, Tennessee and Virginia, make up the "Tri-Cities" area of Northeastern Tennessee. Including Erwin and Elizabethton, the area has an MSA population of 490,300. Business and industry in Johnson City are diverse and include utilities, electronics, retail, auto parts, textiles and medical services. The City's economic base is still firmly rooted in institutional services. The three largest employers are: Mountain States Health Alliance, East Tennessee State University and Citi Cards.

The City continues to experience healthy population growth. Unemployment rates for the MSA experienced a decrease during the fiscal year, ending the year at 5.2%. A balance of property and sales taxes supports the City's finances. Over the past few years, the City's governing body has adopted a number of major initiatives, which required significant capital investment. After many years with no increase in property tax rates, fiscal years 2000 and 2001 required the use of fund balance to finance these improvements. The Board of Commissioners and staff were willing to make the tough decisions to prevent the use of fund balance in fiscal year 2002. With the implementation of the first property tax rate increase in years and an intensive cost/headcount reduction program, the City's fund balance experienced a surplus in fiscal year 2002, which was used to compensate for prior year deficits. Additional cost/headcount reductions were implemented in fiscal year 2003, in lieu of a property tax increase, to fund increases in healthcare and other costs. Healthy property tax and sales tax collections contributed to continued healthy performance in fiscal years 2004 to present, and allowed the City to continue to operate with no increase in the property tax rate. The City's property tax rate continues to be the lowest of all the surrounding areas.

Accomplishments

The City of Johnson City, in conjunction with neighboring municipalities and the business and education community, conducted the 3rd Annual Economic Summit during fiscal year 2006. The City's involvement in this partnership for Economic Progress demonstrates a continued commitment to working for a stronger local economy, improved quality of life, community pride, responsible city government and a more attractive community. Noteworthy accomplishments of the city government for the Fiscal Year Ending June 30, 2006 are as follows:

- Refinanced some of existing debt to take advantage of favorable interest rates. Future debt service payments are expected to decrease by \$442,000 for general obligation debt and by \$115,000 for water and sewer revenue and tax debt.
- Secured financing for construction on Knob Creek Road, Tennessee Street and a new Fire Station.
- Secured financing for various Water & Sewer System improvements, including the upgrade of the Regional Wastewater Treatment Plant.
- Completed construction on new Carver Recreation Center.
- Funding approved for new Senior's Center.
- Allocated funding for initial phase of Science Hill High School 8-9 Campus Renovation Project.
- Installed new telescopic seating system to replace box seats at Freedom Hall Civic Center.

- Purchased four (4) 78-passenger school buses.
- Implemented wireless field reporting and ticketing system in Police Department, Patrol Division.
- Realized the first revenues from the Gas-to-Energy Contract for the Iris Glen Landfill.
- Co-hosted USSSA National Baseball Tournament at Winged Deer Park.
- Hosted National Championship for Amateur Softball Association (Class A Fast pitch 14 & under).
- Received Platinum recognition from the National Association of Clean Water Agencies for the Regional Wastewater Treatment Plant. Received Gold recognition for the Brush Creek and Knob Creek Plants.

Capital Projects

The City government maintains and revises annually a five-year capital improvement program, which includes present projects, funding sources and recognizes future projects. Proceeds from general obligation bond issues are accounted for in Capital Projects Funds until improvement projects are completed. Completed projects are transferred to Capital Assets. Capital Projects Fund statements, as well as the Capital Asset schedules, can be found in the nonmajor governmental fund statements, following the notes to the financial statements.

Cash Management

All cash, except that which is restricted, is pooled to gain a maximum interest rate. First Tennessee, our depository bank, automatically invests all collected cash balances daily at an interest rate equal to the interest rate on federal funds or higher. All funds are secured in the City's name with acceptable state or federal issues equal to 100% of the deposited funds.

Risk Management

The Risk Management Program includes all lines of loss exposure. These exposure areas include: Worker's Compensation, Property Damage, General Liability, Automobile Coverage, Errors and Omission, Crime, Boiler and Machinery and Accidental Death and Dismemberment. The City is self-insured for some insurance coverage. Specific and aggregate reinsurance is maintained to cover any losses in excess of self-insurance reserves. Health Insurance is self-insured and was administered by Blue Cross and Blue Shield during fiscal year 2006.

Awards

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Johnson City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the City's fifth consecutive year for receiving the award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and are submitting it to GFOA to determine its eligibility for another award.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report (CAFR) could not have been accomplished without the efforts and dedication of the Accounting staff throughout the fiscal year. I would like to express my appreciation to the Accounting staff and personnel from various departments, agencies and authorities, as well as our auditors, for assisting in the preparation and publication of this report. Also, I would like to thank the City Manager, Mayor and Commissioners for their guidance and support.

Respectfully submitted,

Janet Jennings, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Johnson City
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



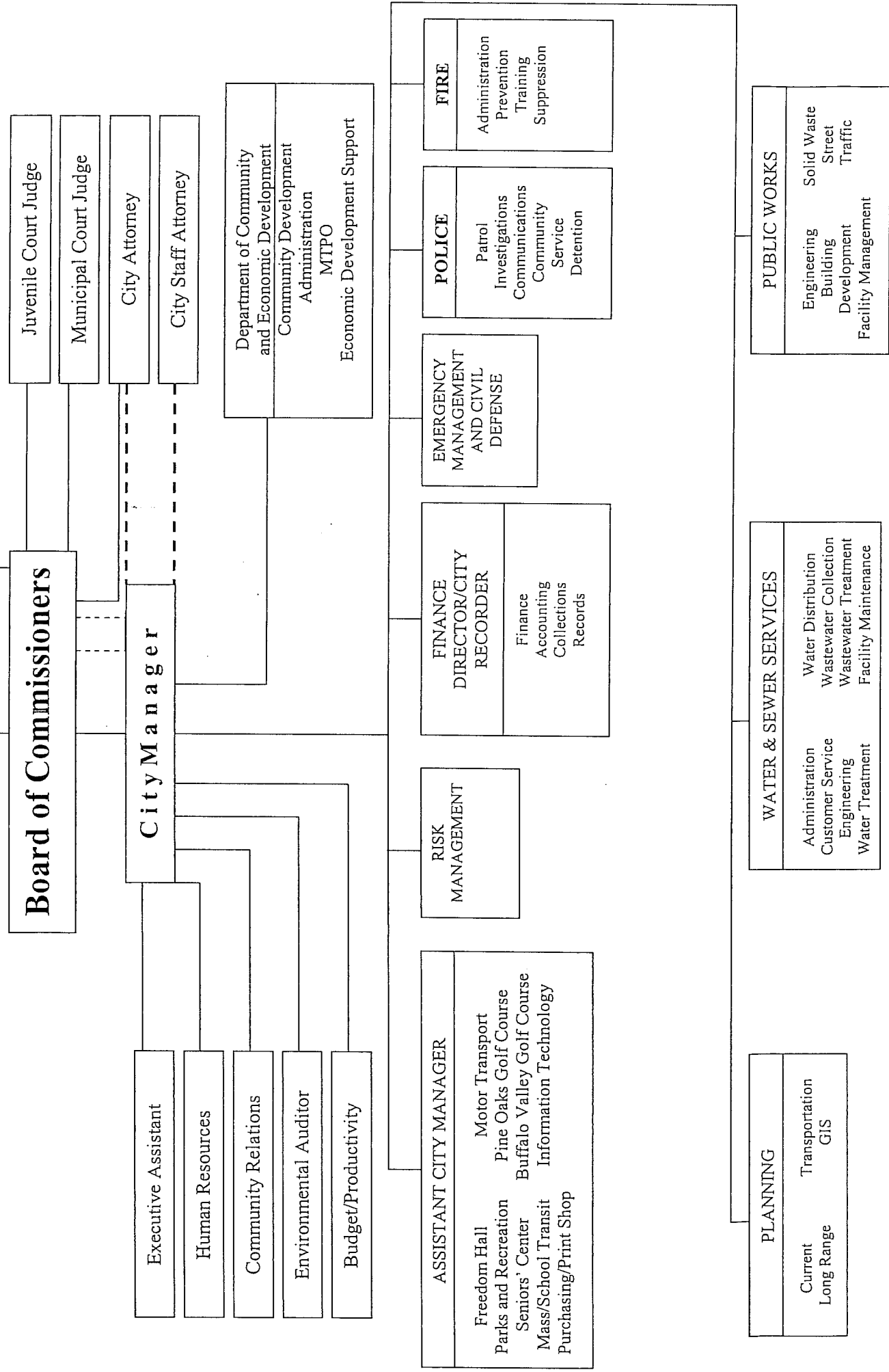
A handwritten signature in black ink, appearing to read "Ronald J. Hain".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director

CITIZENS OF JOHNSON CITY



CITY OF JOHNSON CITY, TENNESSEE
CITY OFFICIALS
June 30, 2006

Board of Commissioners:

Steve Darden, Mayor
Phil Roe, Vice-Mayor
Pete Paduch
Ricky Mohon
Jane Myron

City Judges:

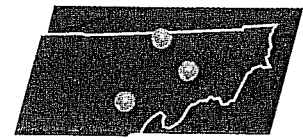
Sharon Greene, Juvenile Judge
William Mooney, City Judge
James Nidiffer, City Judge

City Attorney:

James H. Epps, III

City Administration:

M. Denis Peterson, City Manager
Charles J. Stahl, IV, Assistant City Manager

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Commissioners
City of Johnson City
Johnson City, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Johnson City, Tennessee (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Johnson City Schools Site-Based Fund, a nonmajor special revenue fund, as of and for the year ended June 30, 2006, which represent 2%, 2%, and 7% respectively, of the assets, net assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Johnson City Schools Site-Based Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Johnson City, Tennessee as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flow thereof and the respective budgetary comparisons for the general fund and the general purpose school fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and schedules, supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Blackburn, Childers and Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

November 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Johnson City, Tennessee (the City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through iii of this report. All amounts included in this management's discussion and analysis, unless otherwise indicated, are expressed in the thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$305,127 (*net assets*). Of this amount, \$236,542 is invested in capital assets (*net of related debt*) and \$1,769 is restricted for specific purposes.
- The City's total net assets increased by \$24,650 for the current period. In addition, beginning net assets experienced a \$1,374 decrease for prior period adjustments.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$44,886, an increase of \$11,916 in comparison with the prior year. Of this amount, \$6,419 is reserved for specific purposes.
- At the end of the current fiscal year, fund balance for the general fund was \$17,350, or 25% of total general fund expenditures including transfers out. This balance included \$3,140 committed for specific purposes.
- The City's total debt increased by \$36,849 (18%) during the current fiscal year.

Overview of the Financial Statements.

This narrative overview is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, licenses and permits, and intergovernmental revenues

(governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, public welfare, city services and education. The business-type activities of the City include water and sewer, city solid waste, regional solid waste, power board, public building authority, mass transit and golf courses. The government-wide financial statements can be found on pages 13 through 16 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements. Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-four (24) individual governmental funds. Twenty-two (22) of these governmental funds are classified as nonmajor and are summarized under the heading "Other Governmental Funds" in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general-purpose school fund, and nonmajor governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 17 through 21 of this report.

The City adopts an annual appropriation budget for its general and other major special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

Proprietary funds. The City maintains two (2) different types of proprietary funds including enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the water/sewer, city solid waste, regional solid waste, mass transit, two golf courses, power board and public building authority. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet maintenance service and insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been primarily included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the water and sewer, city solid waste, power board and public building authority, which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report. Data from the City's internal service funds (motor transport and insurance) are included in the proprietary fund financial statements under the heading "Governmental Activities – Internal Service Fund)". The basic proprietary fund financial statements can be found on pages 34 through 41 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44 through 126 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds and nonmajor proprietary funds, are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 127 through 155 of this report

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City of Johnson City, assets exceeded liabilities by \$305,127 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (78%) reflects its investment in capital assets (e.g. land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Johnson City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 98,008	\$ 82,487	\$ 71,546	\$ 28,327	\$169,554	\$110,814
Capital assets	<u>182,675</u>	<u>185,224</u>	<u>256,429</u>	<u>250,110</u>	<u>439,104</u>	<u>435,334</u>
Total assets	<u>280,683</u>	<u>267,711</u>	<u>327,975</u>	<u>278,437</u>	<u>608,658</u>	<u>546,148</u>
Long-term liabilities	115,620	118,285	124,379	89,842	239,999	208,127
Other liabilities	<u>44,972</u>	<u>40,787</u>	<u>18,560</u>	<u>15,383</u>	<u>63,532</u>	<u>56,170</u>
Total liabilities	<u>160,592</u>	<u>159,072</u>	<u>142,939</u>	<u>105,225</u>	<u>303,531</u>	<u>264,297</u>
Net assets:						
Invested in capital assets, net of related debt	67,480	69,035	170,338	164,363	237,818	233,398
Restricted	1,108	1,236	661	501	1,769	1,737
Unrestricted	<u>51,503</u>	<u>38,368</u>	<u>14,037</u>	<u>8,348</u>	<u>65,540</u>	<u>46,716</u>
Total net assets	<u>\$120,091</u>	<u>\$108,639</u>	<u>\$185,036</u>	<u>\$173,212</u>	<u>\$305,127</u>	<u>\$281,851</u>

The City's net assets include a significant investment in capital assets (78%), net of the related debt. A portion of the City's net assets (.6%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the City reports positive balances in all net asset categories.

The government's net assets increased by \$24,650 during the current fiscal year. About 52% of this increase (\$12,826) was from the governmental activities while the remaining 48% of the increase (\$11,824) was from the business-type activities. In addition, prior year total net assets were adjusted by \$(1,374) in governmental activities.

The following is a summary of financial activities for the City during the 2006 fiscal year:

City of Johnson City's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 8,869	\$ 7,254	\$176,988	\$161,716	\$185,857	\$168,970
Operating grants & contributions	30,517	30,134	1,103	995	31,620	31,129
Capital grants & contributions	165	626	818	1,718	983	2,344
General revenues:						
Property taxes	33,591	32,741	-	-	33,591	32,741
Sales taxes	32,012	30,095	-	-	32,012	30,095
Other taxes & intergovernmental	7,510	7,605	-	-	7,510	7,605
Unrestricted investment earnings	1,858	990	1,168	333	3,026	1,323
Other	<u>175</u>	<u>377</u>	<u>197</u>	<u>439</u>	<u>372</u>	<u>816</u>
Total revenues	<u>114,697</u>	<u>109,822</u>	<u>180,274</u>	<u>165,201</u>	<u>294,971</u>	<u>275,023</u>

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Expenses:						
General government	7,102	7,519	-	-	7,102	7,519
Public safety	19,538	18,254	-	-	19,538	18,254
Public works	11,740	10,648	-	-	11,740	10,648
Public welfare	6,309	6,211	-	-	6,309	6,211
City services	1,790	1,818	-	-	1,790	1,818
Education	54,449	51,957	-	-	54,449	51,957
Interest on long-term debt	3,041	4,761	-	-	3,041	4,761
Water and sewer	-	-	18,617	17,309	18,617	17,309
City solid waste	-	-	7,040	6,654	7,040	6,654
Regional solid waste	-	-	1,615	1,410	1,615	1,410
Power board	-	-	133,198	119,755	133,198	119,755
Public building authority	-	-	2,295	2,377	2,295	2,377
Mass transit	-	-	2,193	1,902	2,193	1,902
Golf courses	-	-	1,394	1,232	1,394	1,232
Total expenses	<u>103,969</u>	<u>101,168</u>	<u>166,352</u>	<u>150,639</u>	<u>270,321</u>	<u>251,807</u>
Increase in net assets						
before transfers	10,728	8,654	13,922	14,562	24,650	23,216
Transfers	<u>2,098</u>	<u>2,278</u>	<u>(2,098)</u>	<u>(2,278)</u>	<u>0</u>	<u>0</u>
Change in net assets	12,826	10,932	11,824	12,284	24,650	23,216
Net assets, beginning of period	108,639	96,471	173,212	160,928	281,851	257,399
Prior period adjustment	<u>(1,374)</u>	<u>1,236</u>	<u>-</u>	<u>-</u>	<u>(1,374)</u>	<u>1,236</u>
Net assets, end of period	<u>\$ 120,091</u>	<u>\$ 108,639</u>	<u>\$185,036</u>	<u>\$173,212</u>	<u>\$305,127</u>	<u>\$281,851</u>

Governmental activities. Governmental activities increased the City's net assets by \$12,826, thereby accounting for 52% of the total growth in the net assets of the City. This increase is primarily due to bond proceeds received during the current fiscal year, but not expended prior to year-end. The City also experienced healthy growth in both property taxes and sales taxes. Additionally, information regarding this increase can be found in Note 2 on pages 57 through 58 of this report.

Business-type activities . Business-type activities increased the City's net assets by \$11,824 accounting for 48% of the total growth in the City's net assets. Key elements of this increase are as follows:

- Johnson City Power Board achieved a net income and contributed 55% of the total growth in net assets for business-type activities.
- Water and Sewer Activities achieved a net income and contributed 29% of the total net assets growth (business-type activities) to provide funds for debt repayments and capital expansion as indicated in the statement of cash flows located on pages 39 through 41 of this report.

Financial Analysis of the City's Funds

As noted earlier, the City of Johnson City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$44,886, a current year increase of \$11,916 in comparison with the prior year. Of this amount, \$6,419 is reserved to indicate that it has already been committed to: (1) future debt service (\$905), (2) public safety projects funded by donations (\$957), (3) compensated absences (\$2,132), and (4) for a variety of other restricted purposes (\$2,425).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance reached \$17,350, including \$3,140 committed for specific purposes. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out. Unreserved fund balance represents 20.6% of total general fund expenditures and transfers out, while total fund balance represents 25.2% of that same amount. The fund balance of the City's general fund increased by \$3,524 as a result of strong tax collections and investment earnings.

The general-purpose school fund has a total fund balance of \$7,325, of which most is unreserved. The net increase in fund balance during the current year was \$110.

Nonmajor (other) governmental funds have a fund balance of \$20,211. The net increase in fund balance during the current year was \$8,282. This net increase is primarily attributed to bond proceeds received in the capital projects funds, which will be expended in future periods, for road and school projects. The beginning fund balances for nonmajor governmental funds were restated as a result of prior period adjustments (net increase \$36).

Proprietary funds. The City of Johnson City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund, City Solid Waste Fund and Johnson City Power Board, at the end of the year, amounted to \$2,910, \$1,341 and \$10,120, respectively.

The Public Building Authority (PBA) is a blended component unit of the City and reported unrestricted net assets of \$(798).

Nonmajor (other) proprietary funds reported unrestricted net assets of \$145. Total unrestricted net assets of proprietary funds amounted to \$15,313. Total growth in net assets for the proprietary funds amounted to \$11,824. Other factors concerning the financial position of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Original and Final Budgeted Amounts. Differences between the original budget and the final amended budget for the general fund represent a \$262 increase in expenditures appropriations and \$1,044 increase in transfers appropriated for a total of \$1,306 and include the following:

\$ 922	Funding for capital projects, including police cars and vehicles and equipment for fire department, public works department, parks and recreation department and senior's center; funding from 2005 reserves
47	Funding for parks and recreation equipment and emergency repairs; funding received in the form of additional revenues
220	Funding for police department equipment, special assignments and community awareness; funding received in the form of donations and reimbursements
<u>117</u>	Funding for public works; funded by FEMA grant and other reimbursements
<u>\$1,306</u>	

Of this increase, approximately \$384 was funded out of miscellaneous growth related increases in various revenue sources, donations, refunds or grant activity. The remaining \$922 was funded from reserves set aside from prior years' surplus.

Differences between the original budget and the final amended budget for the general purpose school fund represent a \$764 increase in expenditures appropriations and a \$171 increase in transfers appropriated for a total increase in appropriations of \$935 and includes the following:

\$ 276	Funding for increased personnel costs
47	Funding for materials, supplies, contracted services and communications
195	Funding for capital outlay, including \$181 for building improvements
20	Funding for workman's compensation insurance and other support services of the Board of Education
129	Funding for increases to utilities
97	Funding for increases to transportation costs including increases in fuel costs
<u>171</u>	Funding for transfers
<u>\$ 935</u>	

Of this increase, \$179 of the transfers was funded through increased sales taxes and transferred to debt service. There was a decrease in transfers to food service of \$8 since there were no transfers to Food Service in the current year. An additional \$626 was funded through related increases in various revenue sources, including taxes, State and Federal revenues and investment earnings. The remaining \$138 was funded from reserves set aside from prior years' surplus.

Capital Asset and Debt Administration

Capital Assets. The City of Johnson City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$439,104 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, plant in service, equipment and vehicles, paving, transmission and power distribution system, garbage containers, infrastructure and construction in progress.

Major capital asset events during the fiscal year included the following:

- Acquisition of new school buses.
- Acquisition of new police wireless reporting and ticketing system.
- Construction in progress on Knob Creek Road project.
- Construction in progress on upgrade to Regional Wastewater Treatment Plant.
- Completion of new Carver Recreation Center.
- Additional investment in Johnson City Power Board plant.

City of Johnson City's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 17,075	\$ 17,496	\$ 13,929	\$ 14,269	\$ 31,004	\$ 31,765
Buildings and Improvements	137,832	136,880	47,273	46,942	185,105	183,822
Plant and Lines	-	-	274,608	265,587	274,608	265,587
Vehicles and Equipment	29,669	28,660	26,029	24,304	55,698	52,964
Infrastructure	132,168	126,880	-	-	132,168	126,880
Construction in progress	1,488	3,385	10,987	7,625	12,475	11,010
Accumulated Depreciation	(135,557)	(128,077)	(116,397)	(108,617)	(251,954)	(236,694)
Total capital assets	<u>\$182,675</u>	<u>\$185,224</u>	<u>\$256,429</u>	<u>\$250,110</u>	<u>\$439,104</u>	<u>\$435,334</u>

Additional information on the City's capital assets can be found in Note 4.C. on pages 67 through 69 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$241,104. All of this debt is backed by the full faith and credit of the government.

City of Johnson City's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Notes payable	\$ 1,229	\$ 1,517	\$ 12,929	\$ 940	\$ 14,158	\$ 2,457
General obligation bonds	114,642	114,752	68,641	39,624	183,283	154,376
Revenue bonds	-	-	43,560	47,220	43,560	47,220
Capital Leases	103	202	-	-	103	202
Total Long-Term Debt	<u>\$115,974</u>	<u>\$116,471</u>	<u>\$125,130</u>	<u>\$ 87,784</u>	<u>\$241,104</u>	<u>\$204,255</u>

The City's total debt increased by \$36,849 (18%) during the current fiscal year, due to \$12,000 in revenue anticipation notes issued by the electric system.

The government issued \$7,000 in general obligation debt to finance school renovation projects and road construction projects. The government also issued \$30,000 in water and sewer debt to finance planned capital improvements.

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates. The City entered into a general obligation bond refinancing that is expected to decrease future debt service payments by \$442. The City also entered into a revenue and tax bond refinancing of the water and sewer function that is expected to decrease future debt service payments by \$115. The Public Building Authority (PBA) also refinanced debt to take advantage of favorable interest rates. Future debt service payments are expected to decrease by \$466 for the PBA.

The City maintains an 'A1' rating from Moody's Investors Service and a 'AA-' rating from Standard & Poor's, for its debt.

The City of Johnson City is subject to debt limitations imposed by its Charter. The total bonded indebtedness (excluding sales tax revenue debt) shall not exceed 10% of the assessed taxable value of property within the City. The current debt limitation for the City is in excess of the outstanding general obligation debt, with the amount of debt applicable to the debt limit at only 6.0%. Additional information on the City's long-term debt can be found in Note 4.F. on pages 71 through 99 of this report.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the metropolitan statistical area is currently 5.2%, which is a decrease of .8% from a year ago. This compares to the state's average unemployment rate of 5.6% as of June 30, 2006.
- Inflationary trends in the region are comparable to national indices.
- New construction permitted and inspected was up 27.4% over the previous year, at \$209 million.
- Growth in local sales tax collections is budgeted to approximate 1% in fiscal year 2007.

Short-term interest rates on the City's pooled cash account increased as a result of increases in the federal fund rate from 2.7% to 4.75%. All of these factors were considered in preparing the City of Johnson City's budget for fiscal year 2007.

During the current fiscal year, unreserved fund balance in the general fund increased to \$14,210. All appropriations lapse at year-end. The City of Johnson City has not appropriated any of this amount for spending in the fiscal year 2007 budget.

As the result of a cost rate study completed during fiscal year 2004, water rates remain unchanged for fiscal year 2007; however, sewer rates were adjusted from 11.2% to 19.7%, depending on the usage group. These adjustments were implemented to facilitate the appropriate coverage of expenses for water and sewer services, individually, as well as to fund inflationary costs associated with operations and planned capital improvements. Residential garbage collection rates, as well as commercial and industrial collection rates, remained steady.

Discretely Presented Component Units

The Johnson City Public Library (the “Library”) is a non-profit organization under IRC Section 501(c)3 incorporated in September 1989. The Library’s Board of Directors is appointed by the City Commission and an appropriation of at least 80% of its annual support is provided by the City. The City is obligated to finance any deficits and all debt is financed by the City. The Library’s property is also owned and titled to the City. Separately issued financial statements may be requested from: Johnson City Public Library, 100 West Millard Street, Johnson City, TN 37604.

The Johnson City Development Authority (the “Authority”) is an organization whose purpose is to facilitate business development within the City. The City Commission appoints a majority of the Authority’s Board of Directors and may impose its will on the Authority since the City can remove appointed members of the Authority’s Board of Directors. Separately issued financial statements may be requested from: Johnson City Development Authority, 118 Tipton Street, Johnson City, TN 37605.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in such. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Johnson City, Director of Finance, 601 East Main Street, Johnson City, Tennessee 37601.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS:</u>				
Cash on Hand	\$ 3,663	21,287	24,950	550
Cash on Deposit with Paying Agent	5,794	282,925	288,719	-
Cash in Bank	23,492,851	3,322,970	26,815,821	103,093
Cash on Deposit with State	53,945	254,526	308,471	-
Cash Due from Central Depository	20,293,181	3,660,155	23,953,336	-
Investments	-	-	-	178,768
Accounts Receivable	1,314,740	10,158,443	11,473,183	4,243
Notes Receivable	106,193	262,500	368,693	-
Internal Balances	871,008	(871,008)	-	-
Local Option Sales Tax Receivable	553,760	-	553,760	-
Taxes Receivable	26,473,941	-	26,473,941	-
Less: Estimated Uncollectible	(73,725)	-	(73,725)	-
Intergovernmental Receivables	16,682,242	465,566	17,147,808	-
Local Grants Receivable	4,095	-	4,095	-
Postage Deposits	5,050	-	5,050	-
Inventory	637,209	3,265,428	3,902,637	-
Prepaid Expenses	154,331	176,956	331,287	-
Capital Assets:				
Land	17,075,561	13,928,778	31,004,339	-
Book Collection	-	-	-	1,138,049
Buildings and Improvements	137,831,648	47,273,557	185,105,205	-
Plant in Service	-	274,608,042	274,608,042	-
Equipment and Vehicles	29,669,505	26,028,674	55,698,179	627,762
Infrastructure	132,167,490	-	132,167,490	-
Less: Accumulated Depreciation	(135,557,249)	(116,396,850)	(251,954,099)	(572,605)
Construction in Progress	1,487,764	10,986,825	12,474,589	-
Restricted Assets:				
Cash or Cash Equivalents	7,004,080	46,051,104	53,055,184	-
Investments	-	2,030,952	2,030,952	-
Other Assets:				
Bond Issue Costs (Net)	425,701	1,687,930	2,113,631	-
Customer Base (Net)	-	226,719	226,719	-
Prepaid Expenses	-	550,000	550,000	-
Total Assets	280,682,778	327,975,479	608,658,257	1,479,860

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government			
	Governmental	Business-Type	Total	Component
	Activities	Activities		Units
LIABILITIES:				
Cash Due to Central Depository	1,870,602	1,891,840	3,762,442	-
Accounts Payable	3,312,334	10,165,044	13,477,378	373
Accrued Payroll Expenses	3,610,774	463,290	4,074,064	24,588
Accrued Expenses	452,412	1,175,574	1,627,986	-
Deposits Payable	109,809	1,608,618	1,718,427	-
Matured Bond and Interest Payable	5,794	28,208	34,002	-
Retainage Payable	49,599	58,414	108,013	-
Unearned Revenue	33,375,422	76,136	33,451,558	-
Contractor Deposits	-	824,180	824,180	-
Compensated Absences:				
Due within one year	1,496,327	620,797	2,117,124	6,708
Due in more than one year	688,104	1,648,602	2,336,706	-
Noncurrent Liabilities:				
Due within one year	7,552,938	5,608,977	13,161,915	-
Due in more than one year	108,067,343	118,003,225	226,070,568	-
Special Commission Bonds	-	93,737	93,737	-
Deferred Landfill Postclosure Cost:				
Due within one year	-	37,380	37,380	-
Due in more than one year	-	635,460	635,460	-
Customer Deposits	-	375	375	-
Total Liabilities	160,591,458	142,939,857	303,531,315	31,669
NET ASSETS:				
Invested in Capital Assets, Net of				
Related Debt	67,480,139	169,062,058	236,542,197	1,193,206
Restricted for:				
Debt Service	905,407	660,326	1,565,733	-
Endowments (nonexpendable)	203,164	-	203,164	178,768
Unrestricted	51,502,610	15,313,238	66,815,848	76,217
Total Net Assets	\$ 120,091,320	185,035,622	305,126,942	1,448,191

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Functions/Programs	NET (EXPENSE) REVENUE AND CHANGES						
	PROGRAM REVENUES			IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 7,102,418	1,974,914	435,985	-	(4,691,519)	-	(4,691,519)
Public Safety	19,537,869	1,577,697	1,769,379	164,833	(16,025,960)	-	(16,025,960)
Public Works	11,740,047	104,796	110,679	-	(11,524,572)	-	(11,524,572)
Public Welfare	6,309,383	389,525	728,198	-	(5,191,660)	-	(5,191,660)
City Services	1,789,975	2,113,662	1,980,286	-	2,303,973	-	2,303,973
Education	54,448,620	2,708,056	25,492,398	-	(26,248,166)	-	(26,248,166)
Interest on Long-Term Debt	3,040,993	-	-	-	(3,040,993)	-	(3,040,993)
Total Governmental Activities	103,969,305	8,868,650	30,516,925	164,833	(64,418,897)	-	(64,418,897)
Business-type Activities:							
Water and Sewer	18,616,496	21,772,092	-	-	-	3,155,596	3,155,596
City Solid Waste	7,040,115	8,257,612	-	-	-	1,217,497	1,217,497
Regional Solid Waste	1,615,196	2,001,125	-	-	-	385,929	385,929
Johnson City Power Board	133,197,667	141,680,530	-	-	-	8,482,863	8,482,863
JC Public Building Authority	2,294,949	2,021,899	-	-	-	(273,050)	(273,050)
Mass Transit	2,193,038	262,624	1,103,458	818,212	-	(8,744)	(8,744)
Golf Courses	1,393,946	991,748	-	-	-	(402,198)	(402,198)
Total Business-type Activities	166,351,407	176,987,630	1,103,458	818,212	-	12,557,893	12,557,893
Total Primary Government	\$ 270,320,712	185,856,280	31,620,383	983,045	(64,418,897)	12,557,893	(51,861,004)

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Functions/Programs Component Units:	NET (EXPENSE) REVENUE AND CHANGES						
	PROGRAM REVENUES			IN NET ASSETS			Component Units
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Johnson City Public Library							(116,320)
Johnson City Development Authority							(13,383)
							(129,703)
Expenses	1,615,622	67,739	1,431,563	-	-	-	
	134,927	2,337	119,207	-	-	-	
\$	1,750,549	70,076	1,550,770	-	-	-	
General Revenues:							
Property Taxes				33,591,476	-	33,591,476	-
Sales Taxes				32,012,124	-	32,012,124	-
Other Taxes				7,510,307	-	7,510,307	-
Unrestricted Investment Earnings				1,858,159	1,167,313	3,025,472	23,568
Gain on Disposal of Capital Assets				35,305	197,282	232,587	-
Other General Revenue				139,220	-	139,220	5,644
Transfers				2,098,500	(2,098,500)	-	-
Total General Revenues and Transfers				77,245,091	(733,905)	76,511,186	29,212
Change in Net Assets				12,826,194	11,823,988	24,650,182	(100,491)
Net Assets, Beginning				108,639,274	173,211,634	281,850,908	1,627,433
Prior Period Adjustment-Capital Assets				(1,374,148)	-	(1,374,148)	(78,751)
Net Assets, Beginning (Restated)				107,265,126	173,211,634	280,476,760	1,548,682
Net Assets, Ending				\$ 120,091,320	185,035,622	305,126,942	1,448,191

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	General Purpose School Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS:</u>				
Cash Due from Central Depository	\$ 12,334,162	-	7,649,990	19,984,152
Cash on Hand	3,663	-	-	3,663
Cash in Bank	24,639	7,178,588	7,430,481	14,633,708
Cash on Deposit with Paying Agent	5,794	-	-	5,794
Cash on Deposit with State of Tennessee	-	-	53,945	53,945
Taxes Receivable	26,473,941	-	-	26,473,941
Less: Estimated Uncollectible	(73,725)	-	-	(73,725)
Accounts Receivable	1,236,422	68,282	1,338	1,306,042
Local Option Sales Tax Receivable	-	-	553,760	553,760
Notes Receivable	-	-	106,193	106,193
Due from Washington County	-	10,372,294	-	10,372,294
Due from State of Tennessee	2,152,339	-	1,020,253	3,172,592
Due from Other Funds	493,512	542,700	6,119	1,042,331
Due from Federal Government	-	-	139,281	139,281
Due from Local Governments	2,998,075	-	-	2,998,075
Local Grants Receivable	-	-	4,095	4,095
Postage Deposits	5,050	-	-	5,050
Inventory	-	27,269	201,228	228,497
Advances to Other Funds	540,000	-	-	540,000
Restricted Cash	50,262	-	6,953,818	7,004,080
Total Assets	<u>\$ 46,244,134</u>	<u>18,189,133</u>	<u>24,120,501</u>	<u>88,553,768</u>
<u>LIABILITIES AND FUND BALANCES:</u>				
<u>Liabilities:</u>				
Cash Due to Central Depository	-	-	1,853,973	1,853,973
Accounts Payable	\$ 1,272,156	58,684	982,574	2,313,414
Accrued Payroll Expenses	390,989	2,876,454	302,901	3,570,344
Accrued Expenses	-	-	20,412	20,412
Retainage Payable	-	-	49,599	49,599
Due to Other Funds	162,504	16,901	548,819	728,224
Deposits Payable	109,809	-	-	109,809
Matured Bond Interest Payable	5,794	-	-	5,794
Deferred Revenue	1,640,464	-	150,432	1,790,896
Unearned Revenue	25,312,731	7,912,259	-	33,224,990
Total Liabilities	<u>28,894,447</u>	<u>10,864,298</u>	<u>3,908,710</u>	<u>43,667,455</u>

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	General Purpose School Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:				
Reserved for:				
Compensated Absences	2,008,823	85,512	37,890	2,132,225
Debt Service	-	-	905,407	905,407
Encumbrances	-	671,339	-	671,339
Specific Activities and Projects	174,611	806,304	333,321	1,314,236
Public Safety	956,541	-	-	956,541
Inventory	-	27,269	201,228	228,497
School Trust	-	-	203,164	203,164
Preschool	-	7,854	-	7,854
Unreserved, Reported In:				
General Fund	14,209,712	-	-	14,209,712
General Purpose School Fund	-	5,677,318	-	5,677,318
Special Revenue Funds	-	-	1,423,256	1,423,256
Capital Project Funds	-	49,239	17,107,525	17,156,764
Total Fund Balances	<u>17,349,687</u>	<u>7,324,835</u>	<u>20,211,791</u>	<u>44,886,313</u>
Total Liabilities and Fund Balances	<u>\$ 46,244,134</u>	<u>18,189,133</u>	<u>24,120,501</u>	<u>88,553,768</u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balances of Governmental Funds	\$ 44,886,313
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	182,626,689
Prepays are expensed when disbursed and are not recognized based upon economic benefit or recorded as assets in the governmental funds.	154,331
Bond issue costs are expensed when disbursed in the governmental funds and are amortized over the life of the bonds in the governmental activities.	425,701
Property tax assessments are reported as revenue in the government-wide statements in the period in which an enforceable legal claim arises against property owners. In governmental funds, these assessments are not available to finance current period expenditures and are reported as deferred revenue at the fund level.	921,993
Other revenues which are earned but not available to finance current period expenditures and are reported as deferred revenue at the fund level.	718,472
Compensated absences are not considered due and payable in governmental funds until an employee has terminated service. Therefore, these amounts are presented as reserved fund balance.	(2,132,227)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(115,620,281)
Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	8,110,329
Net Assets of Governmental Activities	<u>\$ 120,091,320</u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	General Fund	General Purpose School Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 48,336,197	17,584,998	2,095,588	68,016,783
Licenses and Permits	1,139,574	1,625	-	1,141,199
Intergovernmental Revenue	8,852,878	19,488,900	7,028,310	35,370,088
Charges for Services	1,054,909	1,239,049	1,180,208	3,474,166
Sale of Real Estate and Other Equipment	21,567	-	1,468,709	1,490,276
Fines and Forfeitures	1,411,426	-	138,857	1,550,283
Revenue from Use of Property	812,284	-	1,207,381	2,019,665
Investment Income	940,653	305,373	295,637	1,541,663
Miscellaneous Revenues	694,742	194,285	322,904	1,211,931
Total Revenues	63,264,230	38,814,230	13,737,594	115,816,054
Expenditures:				
Current:				
General Government	9,848,863	-	-	9,848,863
Public Safety	18,498,326	-	709,438	19,207,764
Public Works	7,907,047	-	99,280	8,006,327
Public Welfare	5,249,930	-	798,341	6,048,271
City Services	-	-	1,574,399	1,574,399
Education	-	43,476,017	7,556,205	51,032,222
Capital Outlay	32,542	1,318,041	5,099,621	6,450,204
Debt Service:				
Principal Retirement	5,969,559	-	1,478,011	7,447,570
Interest and Fiscal Charges	3,728,546	-	1,882,550	5,611,096
Bond Issue Costs	215,000	-	89,043	304,043
Total Expenditures	51,449,813	44,794,058	19,286,888	115,530,759
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,814,417	(5,979,828)	(5,549,294)	285,295
Other Financing Sources (Uses):				
Transfers to Other Funds	(11,531,088)	(1,749,652)	(82,477)	(13,363,217)
Transfers from Other Funds	2,885,357	7,839,414	4,725,446	15,450,217
Bond Proceeds - Refunding	6,245,425	-	-	6,245,425
Bond Proceeds	-	-	7,000,000	7,000,000
Bond Proceeds from Washington County	-	-	2,152,800	2,152,800
Bond Refunding Payments	(5,890,000)	-	-	(5,890,000)
Total Other Financing Sources (Uses)	(8,290,306)	6,089,762	13,795,769	11,595,225
Net Change in Fund Balance	3,524,111	109,934	8,246,475	11,880,520
Fund Balance, July 1, 2005	13,825,576	7,214,901	11,929,458	32,969,935
Purchase Method Inventory Adjustment	-	-	35,858	35,858
Fund Balance, July 1, 2005 (Restated)	13,825,576	7,214,901	11,965,316	33,005,793
Fund Balance, June 30, 2006	\$ 17,349,687	7,324,835	20,211,791	44,886,313

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances of Governmental Funds	\$ 11,880,520
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of general fixed assets in the current period exceeded capital outlays.	287,640
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets.	(1,454,970)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount by which repayments exceeded proceeds.	813,491
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	174,790
Inventories for certain nonmajor funds are accounted for using the purchase method. Inventories are reported using the consumption method in the government-wide financial statements. This is the amount by which expenses were adjusted to convert from purchase method to consumption method.	35,855
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	19,423
Prepaid expenses that do require the use of current financial resources are reported as expenditures in the governmental funds.	3,487
Expenses for compensated absences do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	(329,285)
Internal service funds are used by management to charge the costs of fleet maintenance and employee insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	1,395,243
Change in Net Assets of Governmental Activities	<u>\$ 12,826,194</u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
<u>Taxes:</u>				
Property Tax (Net of Discounts)	\$ 23,500,000	23,500,000	24,220,257	720,257
Property Tax - Penalty and Interest	369,000	369,000	271,350	(97,650)
Other Fees - Taxes	-	-	1,964	1,964
Received in Lieu of Taxes	1,218,000	1,218,000	1,292,309	74,309
Local Sales Tax	16,026,000	16,026,000	16,653,871	627,871
Business Tax	1,280,000	1,280,000	1,343,247	63,247
Business Tax - Penalty and Interest	29,000	29,000	42,176	13,176
Local Beer Tax	1,801,000	1,801,000	1,816,061	15,061
Local Liquor Tax	412,000	412,000	446,371	34,371
Hotel/Motel Tax	858,000	858,000	958,196	100,196
Franchise Tax	556,000	556,000	701,976	145,976
Telephone Commissions/Cable	578,000	578,000	588,419	10,419
Total Taxes	46,627,000	46,627,000	48,336,197	1,709,197
<u>Licenses and Permits:</u>				
Building Permits	450,000	450,000	674,249	224,249
Electrical Permits and Electrician Certificates	90,000	90,000	113,942	23,942
Plumbing Permits and Plumbers Certificates	40,000	40,000	59,289	19,289
Natural Gas Permits	15,000	15,000	14,898	(102)
Zoning Permits and Fees	22,000	22,000	46,925	24,925
Mechanical Permits	44,627	44,627	57,711	13,084
Sign Permits	20,000	20,000	17,184	(2,816)
Plan Review Permits	42,500	42,500	74,962	32,462
Beverage & Private Club Permits	108,000	108,000	76,599	(31,401)
Other Fees and Licenses	5,000	5,000	3,815	(1,185)
Total Licenses and Permits	837,127	837,127	1,139,574	302,447
<u>Intergovernmental Revenues:</u>				
State of Tennessee - Boarding of Prisoners	1,425,000	1,455,648	1,371,392	(84,256)
State of Tennessee - Sales Tax	3,443,000	3,443,000	3,717,885	274,885
State of Tennessee - Income Tax	360,000	360,000	521,967	161,967
State of Tennessee - Beer Tax	29,243	29,243	27,694	(1,549)
State of Tennessee - Mixed Drink Tax	423,105	423,105	540,436	117,331
State of Tennessee - State Street Aid	1,562,100	1,562,100	1,558,614	(3,486)
State of Tennessee - Highway Maintenance	159,580	159,580	276,900	117,320
State of Tennessee - Street and Transit	126,000	126,000	144,772	18,772
State of Tennessee - Excise Taxes	198,550	198,550	208,164	9,614
State of Tennessee - Civil Defense	30,221	30,221	30,221	-
State of Tennessee - Department of Agriculture	35,000	35,000	28,000	(7,000)

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
<u>Revenues (Continued):</u>				
<u>Intergovernmental Revenues (Continued):</u>				
State of Tennessee - Fire Supplement	34,500	34,500	86,750	52,250
State of Tennessee - Police Supplement	84,370	84,370	74,693	(9,677)
State of Tennessee - First TN-VA Development District Senior Citizens Grant	56,419	56,419	54,376	(2,043)
State of Tennessee - Juvenile Grant	-	-	1,233	1,233
State of Tennessee - Telecommunications	10,000	10,000	9,749	(251)
State of Tennessee - Disaster Relief	-	33,532	33,532	-
Washington County - Public Safety	95,000	95,000	62,000	(33,000)
Washington County - Senior Citizens	20,000	20,000	25,000	5,000
Washington County Schools Fund	75,000	75,000	75,000	-
Washington County Juvenile Court	4,500	4,500	4,500	-
Total Intergovernmental Revenues	8,171,588	8,235,768	8,852,878	617,110
<u>Charges for Services:</u>				
School Bus Charters	85,000	95,000	92,889	(2,111)
Clerk Fees	16,000	16,000	19,565	3,565
Accident Reports	30,000	30,000	25,006	(4,994)
Sidewalk Assessments/Curb Cuts	7,500	7,500	14,960	7,460
Special Work Charges	40,000	40,000	89,837	49,837
Administrative Fees from Other Funds	806,400	806,400	806,400	-
Contract Work - Geographic Information Systems	5,500	5,500	6,096	596
Miscellaneous Services	-	-	156	156
Total Charges for Services	990,400	1,000,400	1,054,909	54,509
<u>Sale of Real Estate and Other Equipment:</u>				
Sale of Real Estate	-	-	6,000	6,000
Sale of Equipment and Other Items	50,000	38,000	15,567	(22,433)
Total Sale of Real Estate and Other Equipment	50,000	38,000	21,567	(16,433)
<u>Fines and Forfeitures:</u>				
Municipal Courts - Fines and Court Costs	1,396,000	1,360,000	1,411,426	51,426
Total Fines and Forfeitures	1,396,000	1,360,000	1,411,426	51,426
<u>Receipts for Use of Property:</u>				
Rents from Buildings and Equipment	180,000	180,000	165,620	(14,380)
Parks and Recreation	339,830	371,904	383,645	11,741
Print Shop Charges	61,000	61,000	60,654	(346)
Computer Services (MIS)	190,000	190,000	202,365	12,365
Total Receipts for Use of Facilities	770,830	802,904	812,284	9,380

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
<u>Investment Earnings:</u>				
Investment Income	200,000	200,000	940,653	740,653
Total Investment Earnings	200,000	200,000	940,653	740,653
<u>Miscellaneous:</u>				
Refunds and Reimbursements	67,000	190,610	80,322	(110,288)
Senior Citizens	66,101	66,101	83,464	17,363
Tournaments	40,000	27,000	25,164	(1,836)
Donations	417,000	579,730	292,052	(287,678)
Staff Program Classes	-	-	800	800
Miscellaneous	323,150	375,830	212,940	(162,890)
Total Miscellaneous	913,251	1,239,271	694,742	(544,529)
Total Revenues	59,956,196	60,340,470	63,264,230	2,923,760
<u>Expenditures:</u>				
<u>General Government:</u>				
Administration	74,757	74,757	67,864	6,893
Economic Development	55,356	55,356	56,830	(1,474)
City Commission	32,277	32,277	28,103	4,174
City Court	170,663	170,663	179,409	(8,746)
City Attorney	199,975	199,975	178,285	21,690
Staff Attorney	197,206	197,206	154,888	42,318
Juvenile Court	595,967	595,967	573,770	22,197
City Manager	287,452	287,452	279,539	7,913
Management Services	133,901	133,901	31,926	101,975
Community Relations Office	228,729	228,729	199,444	29,285
Community Economic Coordinator	29,982	29,982	27,002	2,980
Purchasing	205,563	205,563	188,858	16,705
Human Resources	334,913	334,913	314,564	20,349
Planning	540,453	540,453	481,658	58,795
Miscellaneous Appropriations	436,583	364,870	237,878	126,992
Risk Management	1,042,967	1,042,967	980,566	62,401
Geographic Information Systems	221,473	221,473	197,683	23,790
Management Information Systems	895,494	787,494	729,856	57,638
Central Print Shop	80,431	80,431	80,669	(238)
Special Appropriations	3,577,832	3,573,082	3,581,679	(8,597)
Finance Administration	153,956	153,956	144,996	8,960
Accounting	647,921	647,921	645,728	2,193
Collections	453,138	453,138	437,668	15,470
Records Management	53,365	53,365	49,950	3,415
General Elections	-	-	50	(50)
Capital Outlay	-	71,713	19,798	51,915
Total General Government	10,650,354	10,537,604	9,868,661	668,943

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Expenditures (Continued):</u>				
<u>Public Safety:</u>				
Student Transportation	1,492,158	1,492,158	1,353,586	138,572
Police Department	10,421,077	10,638,779	10,423,788	214,991
Fire Department	6,343,743	6,343,743	6,564,045	(220,302)
Civil Defense	153,681	153,681	156,907	(3,226)
Capital Outlay	-	2,000	12,744	(10,744)
Total Public Safety	18,410,659	18,630,361	18,511,070	119,291
<u>Public Works:</u>				
Administration	171,727	171,727	165,621	6,106
Streets	3,521,640	3,521,639	3,437,333	84,306
Engineering	550,651	550,651	585,918	(35,267)
Inspection	734,209	734,209	708,488	25,721
Downtown Parking	-	-	2,221	(2,221)
Traffic Control	1,868,451	1,868,451	1,843,100	25,351
Sidewalks	50,000	50,000	89,757	(39,757)
Mowing	177,000	177,000	191,055	(14,055)
General Facilities	404,579	404,579	390,970	13,609
Municipal Building	296,686	296,686	377,663	(80,977)
Keystone	107,906	107,906	109,289	(1,383)
Facilities Center	7,150	7,150	5,632	1,518
Total Public Works	7,889,999	7,889,998	7,907,047	(17,049)
<u>Public Welfare:</u>				
Public Building Authority	1,352,925	1,352,925	1,352,925	-
Parks and Recreation	3,085,988	3,133,240	3,177,494	(44,254)
Senior Citizens	771,363	771,364	719,511	51,853
Total Public Welfare	5,210,276	5,257,529	5,249,930	7,599
<u>Debt Service:</u>				
Bond - Principal	5,751,821	5,751,821	5,870,699	(118,878)
Bond - Interest	4,412,493	4,412,493	3,720,347	692,146
Note - Principal	-	99,000	98,860	140
Note - Interest	-	9,000	8,199	801
Other Bond Fees	-	-	215,000	(215,000)
Total Debt Service	10,164,314	10,272,314	9,913,105	359,209
Total Expenditures	52,325,602	52,587,806	51,449,813	1,137,993

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,630,594	7,752,664	11,814,417	4,061,753
<u>Other Financing Sources (Uses):</u>				
Transfer from Debt Service	44,000	44,000	44,000	-
Transfer to General Purpose School Fund	(7,832,675)	(7,832,675)	(7,832,675)	-
Transfer to Mass Transit	(404,467)	(404,467)	(404,467)	-
Transfer to Freedom Hall	(213,240)	(213,240)	(213,240)	-
Transfer to Transportation Planning	(36,500)	(36,500)	(36,500)	-
Transfer to Capital Projects	(1,412,550)	(2,334,353)	(2,336,295)	(1,942)
Transfer to Special School Projects	-	(4,750)	(4,750)	-
Transfer to Other Projects	-	-	(18,914)	(18,914)
Transfer to Public Facilities	-	-	(13,551)	(13,551)
Transfer to Roads Project	-	(117,320)	(105,534)	11,786
Transfer to Med Tech Park	(240,162)	(240,162)	(240,162)	-
Transfer from Capital Projects	-	-	13,390	13,390
Transfers in From Proprietary Funds	2,690,000	2,690,000	2,827,967	137,967
Transfers To Proprietary Funds	(325,000)	(325,000)	(325,000)	-
Bond Proceeds - Refunding	-	-	6,245,425	6,245,425
Bond Payment - Refunding	-	-	(5,890,000)	(5,890,000)
Total Other Financing Sources (Uses)	(7,730,594)	(8,774,467)	(8,290,306)	484,161
Net Change in Fund Balance	(100,000)	(1,021,803)	3,524,111	4,545,914
Fund Balance, July 1, 2005	13,825,576	13,825,576	13,825,576	-
Fund Balance, June 30, 2006	\$ 13,725,576	\$ 12,803,773	\$ 17,349,687	4,545,914

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
<u>Taxes:</u>				
Local Sales Tax	9,207,393	9,400,000	9,793,533	393,533
County Property Tax	7,141,606	7,291,000	7,327,984	36,984
Interest and Penalty	68,566	70,000	70,428	428
Business Tax	176,312	180,000	261,731	81,731
In Lieu - Local Utilities	113,623	116,000	131,322	15,322
Total Taxes	16,707,500	17,057,000	17,584,998	527,998
<u>Licenses and Permits:</u>				
Marriage Licenses	1,500	1,500	1,625	125
Total Licenses and Permits	1,500	1,500	1,625	125
<u>Intergovernmental Revenues:</u>				
<u>State:</u>				
Basic Education Program	18,424,607	18,652,000	18,720,370	68,370
Career Ladder Program	643,063	651,000	616,740	(34,260)
Bank Excise Tax	29,634	30,000	44,707	14,707
Drivers Education	137,799	139,500	15,155	(124,345)
Mixed Drink Tax	988	1,000	1,029	29
Telecommunication Tax	7,409	7,500	8,133	633
Total State	19,243,500	19,481,000	19,406,134	(74,866)
<u>Federal:</u>				
Education of Handicapped - IDEA	20,000	31,000	33,802	2,802
ROTC Reimbursement	44,000	44,000	48,964	4,964
Total Federal	64,000	75,000	82,766	7,766
Total Intergovernmental Revenues	19,307,500	19,556,000	19,488,900	(67,100)
<u>Investment Earnings:</u>				
Investment Income	-	240,000	305,373	65,373
Total Investment Earnings	-	240,000	305,373	65,373
<u>Miscellaneous Revenues:</u>				
Refunds and Reimbursements	-	120,000	74,578	(45,422)
Other Local Revenue	254,000	49,000	119,707	70,707
Total Miscellaneous Revenues	254,000	169,000	194,285	25,285

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Charges for Services:</u>				
School Tuition	346,000	346,000	370,272	24,272
Educare Revenue	700,000	700,000	770,172	70,172
Other Charges	140,000	140,000	98,605	(41,395)
Total Charges for Services	1,186,000	1,186,000	1,239,049	53,049
 Total Revenues	 37,456,500	 38,209,500	 38,814,230	 604,730
 <u>Expenditures:</u>				
<u>Instruction:</u>				
<u>Regular Education Program:</u>				
Personnel	17,888,592	17,898,750	17,883,294	15,456
Career Ladder Program	463,737	464,000	461,875	2,125
Personnel Benefits	5,007,657	5,010,500	5,002,403	8,097
Maintenance and Repairs	14,692	14,700	-	14,700
Contracted Services	81,354	81,400	14,600	66,800
Materials and Supplies	886,597	887,100	569,692	317,408
Other Charges	1,999	2,000	186	1,814
Capital Outlay	754,072	754,500	606,568	147,932
Total Regular Education Program	25,098,700	25,112,950	24,538,618	574,332
<u>Special Education Program:</u>				
Personnel	2,476,500	2,476,500	2,467,231	9,269
Career Ladder Program	42,500	42,500	41,423	1,077
Personnel Benefits	731,700	731,700	717,846	13,854
Contracted Services	33,000	33,000	30,875	2,125
Materials and Supplies	38,450	38,450	8,528	29,922
Capital Outlay	5,050	5,050	5,012	38
Total Special Education Program	3,327,200	3,327,200	3,270,915	56,285
<u>Vocational Education Program:</u>				
Personnel	1,051,545	1,053,800	1,043,054	10,746
Career Ladder Program	23,949	24,000	24,000	-
Personnel Benefits	276,407	277,000	273,133	3,867
Materials and Supplies	38,168	38,250	-	38,250
Maintenance and Repairs	848	850	-	850
Other Charges	3,163	3,170	-	3,170
Capital Outlay	4,440	4,450	-	4,450
Total Vocational Education Program	1,398,520	1,401,520	1,340,187	61,333

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Instruction (Continued):</u>				
<u>Student Education:</u>				
Materials and Supplies	1,500	1,500	-	1,500
Total Student Education	1,500	1,500	-	1,500
<u>Adult Education Program:</u>				
Personnel	79,500	79,500	79,149	351
Career Ladder Program	500	500	-	500
Personnel Benefits	16,600	16,600	11,950	4,650
Maintenance and Repairs	600	600	-	600
Capital Outlay	1,250	1,250	-	1,250
Total Adult Education Program	98,450	98,450	91,099	7,351
<u>Preschool:</u>				
Personnel	-	53,000	25,011	27,989
Personnel Benefits	-	10,600	1,913	8,687
Communication	-	3,000	463	2,537
Materials and Supplies	-	12,000	553	11,447
Other Charges	-	2,600	764	1,836
Capital Outlay	-	3,800	-	3,800
Total Preschool	-	85,000	28,704	56,296
Total Instruction	29,924,370	30,026,620	29,269,523	757,097
<u>Support Services:</u>				
<u>Health Services:</u>				
Personnel	118,700	118,700	118,406	294
Personnel Benefits	35,650	35,650	34,762	888
Travel	1,750	1,750	1,733	17
Contracted Services	4,000	4,000	4,000	-
Materials and Supplies	14,750	14,750	13,453	1,297
Capital Outlay	2,000	2,000	1,998	2
Total Health Services	176,850	176,850	174,352	2,498
<u>Student Support Services:</u>				
Personnel	875,316	905,250	904,955	295
Career Ladder Program	19,338	20,000	20,000	-
Personnel Benefits	210,502	217,700	217,255	445
Evaluation and Testing	19,339	20,000	16,390	3,610
Travel	5,802	6,000	4,846	1,154
Other Charges	37,759	39,050	4,400	34,650
Capital Outlay	1,644	1,700	-	1,700
Total Student Support Services	1,169,700	1,209,700	1,167,846	41,854

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>and</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Encumbrances</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
<u>Support Services (Continued):</u>				
<u>Regular Education Program:</u>				
Personnel	1,191,850	1,164,100	1,162,283	1,817
Career Ladder Program	35,117	34,300	34,300	-
In-Service Training and Development	348,566	340,450	334,644	5,806
Personnel Benefits	379,946	371,100	370,641	459
Travel	15,358	15,000	14,937	63
Materials and Supplies	40,749	39,800	31,620	8,180
Other Charges	213,061	208,100	204,489	3,611
Capital Outlay	8,703	8,500	7,155	1,345
Total Regular Education Program	<u>2,233,350</u>	<u>2,181,350</u>	<u>2,160,069</u>	<u>21,281</u>
<u>Special Education Program:</u>				
Personnel	137,755	138,050	137,997	53
Career Ladder Program	3,592	3,600	3,600	-
Personnel Benefits	38,148	38,230	38,133	97
Contracted Services	45,103	45,200	45,174	26
Travel	3,493	3,500	3,369	131
Materials and Supplies	5,359	5,370	4,621	749
Total Special Education Program	<u>233,450</u>	<u>233,950</u>	<u>232,894</u>	<u>1,056</u>
<u>Vocational Education Program:</u>				
Personnel	102,675	102,800	102,526	274
Career Ladder Program	6,992	7,000	3,600	3,400
Personnel Benefits	28,665	28,700	27,316	1,384
Travel	350	350	-	350
Materials and Supplies	25,968	26,000	-	26,000
Total Vocational Education Program	<u>164,650</u>	<u>164,850</u>	<u>133,442</u>	<u>31,408</u>
<u>Adult Education:</u>				
Personnel	81,932	76,000	68,352	7,648
Career Ladder Program	1,078	1,000	500	500
Personnel Benefits	27,490	25,500	21,331	4,169
Total Adult Education	<u>110,500</u>	<u>102,500</u>	<u>90,183</u>	<u>12,317</u>

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Support Services (Continued):</u>				
<u>Board of Education:</u>				
Audit Services	29,120	30,000	11,700	18,300
Dues and Memberships	15,530	16,000	3,450	12,550
Legal Services	4,854	5,000	100	4,900
Travel	27,178	28,000	27,240	760
Materials and Supplies	1,941	2,000	349	1,651
Surety Bonds	3,397	3,500	144	3,356
In-Service Training and Development	971	1,000	789	211
Trustee's Commission	247,517	255,000	251,037	3,963
Workman's Compensation Insurance	291,196	300,000	300,000	-
Contracted Services	21,354	22,000	17,302	4,698
Other Charges	18,442	19,000	12,507	6,493
Total Board of Education	661,500	681,500	624,618	56,882
<u>Office of Superintendent:</u>				
Personnel	246,304	239,625	234,638	4,987
Career Ladder	1,028	1,000	1,000	-
Personnel Benefits	71,437	69,500	68,580	920
Communication	59,616	58,000	32,690	25,310
Dues and Memberships	12,077	11,750	11,667	83
In-Service Training and Development	5,139	5,000	1,500	3,500
Postal Charges	15,418	15,000	12,006	2,994
Travel	13,362	13,000	12,339	661
Contracted Services	17,731	17,250	13,392	3,858
Materials and Supplies	13,362	13,000	10,073	2,927
Other Charges	9,251	9,000	8,499	501
Total Office of Superintendent	464,725	452,125	406,384	45,741
<u>Office of Principal:</u>				
Personnel	2,152,920	2,200,500	2,172,399	28,101
Career Ladder Program	38,157	39,000	25,600	13,400
Personnel Benefits	669,746	684,550	662,610	21,940
Communication	63,399	64,800	1,563	63,237
Dues and Memberships	1,223	1,250	-	1,250
Postal Charges	8,512	8,700	5,361	3,339
Travel	3,229	3,300	-	3,300
Contracted Services	27,395	28,000	-	28,000
Maintenance and Repairs	1,957	2,000	-	2,000
Materials and Supplies	5,968	6,100	-	6,100
In-Service Training and Development	7,044	7,200	-	7,200
Total Office of Principal	2,979,550	3,045,400	2,867,533	177,867

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
Support Services (Continued):				
<u>Fiscal Services:</u>				
Personnel	205,885	205,950	205,494	456
Personnel Benefits	74,133	74,155	72,562	1,593
Dues and Memberships	700	700	700	-
Travel	2,999	3,000	2,934	66
Contracted Services	7,997	8,000	7,550	450
Materials and Supplies	14,495	14,500	10,162	4,338
Other Charges	2,999	3,000	1,396	1,604
Capital Outlay	7,997	8,000	6,967	1,033
Total Fiscal Services	317,205	317,305	307,765	9,540
<u>Operation of Plant:</u>				
Personnel	1,083,966	1,152,000	1,136,275	15,725
Personnel Benefits	496,347	527,500	506,795	20,705
Contracted Services	139,259	148,000	147,694	306
Utilities	2,057,841	2,187,000	2,182,391	4,609
Materials and Supplies	105,386	112,000	108,097	3,903
Capital Outlay	20,701	22,000	12,462	9,538
Total Operation of Plant	3,903,500	4,148,500	4,093,714	54,786
<u>Maintenance of Plant:</u>				
Personnel	689,826	746,650	738,759	7,891
Personnel Benefits	273,796	296,350	290,430	5,920
Maintenance and Repair	14,782	16,000	3,493	12,507
Materials and Supplies	180,159	195,000	193,115	1,885
Contracted Services	15,706	17,000	16,793	207
Other Charges	5,636	6,100	2,024	4,076
Communication	6,929	7,500	7,250	250
Capital Outlay	91,466	99,000	93,398	5,602
Total Maintenance of Plant	1,278,300	1,383,600	1,345,262	38,338
<u>Transportation Expense:</u>				
Maintenance and Repair	88,902	94,000	62,302	31,698
Other Charges	1,607,809	1,700,000	-	1,700,000
Capital Outlay	47,289	50,000	48,946	1,054
Total Transportation Expense	1,744,000	1,844,000	111,248	1,732,752
<u>Other Support:</u>				
Personnel	298,999	328,900	327,508	1,392
Personnel Benefits	104,476	114,925	105,973	8,952
Travel	8,727	9,600	9,113	487
Contracted Services	57,727	63,500	41,709	21,791
Materials and Supplies	18,363	20,200	17,735	2,465
Other Charges	34,182	37,600	24,124	13,476

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL PURPOSE SCHOOL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts and Encumbrances	Variance with Final Budget - Positive (Negative)
	Original	Final		
<u>Support Services (Continued):</u>				
<u>Other Support (Continued):</u>				
In-Service Training and Development	6,727	7,400	4,151	3,249
Communication	4,545	5,000	3,230	1,770
Capital Outlay	15,454	17,000	16,786	214
Total Other Support	549,200	604,125	550,329	53,796
<u>Community Services:</u>				
Personnel	666,353	606,800	591,785	15,015
Personnel Benefits	65,889	60,000	58,710	1,290
Maintenance and Repair	1,098	1,000	70	930
Contracted Services	3,294	3,000	1,673	1,327
Communications	5,491	5,000	3,891	1,109
Materials and Supplies	75,772	69,000	67,490	1,510
Other Charges	22,182	20,200	19,151	1,049
Capital Outlay	34,921	31,800	31,458	342
Total Community Services	875,000	796,800	774,228	22,572
<u>Other Capital Outlay:</u>				
Building Improvements	671,000	852,000	851,265	735
Total Other Capital Outlay	671,000	852,000	851,265	735
Total Support Services	17,532,480	18,194,555	15,891,132	2,303,423
 Total Expenditures	 47,456,850	 48,221,175	 45,160,655	 3,060,520
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 (10,000,350)	 (10,011,675)	 (6,346,425)	 3,665,250
 <u>Other Financing Sources (Uses):</u>				
Transfer from General Fund	9,488,675	9,532,675	7,832,675	(1,700,000)
Transfer to Debt Service Fund	(856,000)	(1,035,000)	(968,746)	66,254
Transfer to School Federal Projects Fund	(55,000)	(55,000)	(28,603)	26,397
Transfer to Food Service	(8,325)	-	-	-
Transfer to School Site Based Fund	-	-	(745,563)	(745,563)
Total Other Financing Sources (Uses)	8,569,350	8,442,675	6,089,763	(2,352,912)
 Net Change in Fund Balance	 (1,431,000)	 (1,569,000)	 (256,662)	 1,312,338
 Fund Balance, July 1, 2005	 6,910,158	 6,910,158	 6,910,158	 -
 Fund Balance, June 30, 2006	 \$ 5,479,158	 5,341,158	 6,653,496	 1,312,338

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total
ASSETS:						
<u>Current Assets:</u>						
Cash on Hand	\$ 100	-	18,100	-	3,087	21,287
Cash in Bank	1,452,032	-	1,504,162	366,776	-	3,322,970
Cash on Deposit with Paying Agent	31,743	-	-	251,182	-	282,925
Cash on Deposit with State	254,526	-	-	-	-	254,526
Cash Due from Central Depository	-	1,860,874	-	-	1,799,281	3,660,155
Accounts Receivable (Net)	853,084	522,282	8,723,382	10,467	49,228	10,158,443
Notes Receivable	-	-	262,500	-	-	262,500
Due from Federal Government	108,039	-	-	-	250,940	358,979
Due from State of Tennessee	-	-	-	-	106,587	106,587
Due from Other Funds	-	-	317,513	11,171	-	328,684
Inventory	999,034	-	2,125,612	-	140,782	3,265,428
Prepaid Expenses	-	-	172,456	-	4,500	176,956
Total Current Assets	3,698,558	2,383,156	13,123,725	639,596	2,354,405	22,199,440
						9,602,483
<u>Noncurrent Assets:</u>						
<u>Capital Assets:</u>						
Land	2,724,348	1,748,342	4,680,915	2,641,241	2,133,932	13,928,778
Buildings	226,630	742,162	24,295,019	18,190,537	3,819,209	47,273,557
Plant in Service	146,503,686	-	128,104,356	-	-	274,608,042
Equipment and Vehicles	7,041,628	5,453,547	6,799,205	1,747,332	4,986,962	26,028,674
Less: Accumulated Depreciation	(54,978,878)	(3,654,503)	(49,014,183)	(4,278,444)	(4,470,842)	(116,396,850)
Construction In Progress	1,576,347	9,500	9,387,557	-	13,421	10,986,825
Net Capital Assets	103,093,761	4,299,048	124,252,869	18,300,666	6,482,682	256,429,026
						48,028
<u>Restricted Assets:</u>						
Cash or Cash Equivalents	29,919,527	952	16,130,625	-	-	46,051,104
Investments	-	-	2,030,952	-	-	2,030,952
Total Restricted Assets	29,919,527	952	18,161,577	-	-	48,082,056

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total
ASSETS (CONTINUED):						
Noncurrent Assets (Continued):						
Other Assets:						
Bond Issue Costs (Net)	816,813	56,920	543,584	251,124	19,489	1,687,930
Customer Base (Net)	226,719	-	-	-	-	226,719
Prepaid Expenses	-	-	550,000	-	-	550,000
Total Other Assets	1,043,532	56,920	1,093,584	251,124	19,489	2,464,649
Total Non-Current Assets	134,056,820	4,356,920	143,508,030	18,551,790	6,502,171	306,975,731
Total Assets	137,755,378	6,740,076	156,631,755	19,191,386	8,856,576	329,175,171
LIABILITIES:						
Current Liabilities:						
Cash Due to Central Depository	68,222	-	-	-	1,823,618	1,891,840
Accounts Payable	515,127	261,337	9,209,672	84,695	94,213	10,165,044
Accrued Payroll Expenses	190,254	45,989	155,078	-	71,969	463,290
Other Liabilities	352,618	32,012	777,589	-	13,355	1,175,574
Notes and Bonds Payable-Current Portion	2,881,021	525,148	1,095,000	840,000	267,808	5,608,977
Due to Other Funds	166,180	-	-	493,512	-	659,692
Retainages Payable	-	58,414	-	-	-	58,414
Compensated Absences-Current Portion	189,983	50,880	323,133	-	56,801	620,797
Deposits Payable	-	-	1,608,618	-	-	1,608,618
Deferred Revenue	1,883	-	25,800	-	-	27,683
Contractor Deposits	824,180	-	-	-	-	824,180
Deferred Landfill Postclosure Cost-Current Portion	-	37,380	-	-	-	37,380
Matured Bonds and Interest Payable	28,208	-	-	-	-	28,208
Total Current Liabilities	5,217,676	1,011,160	13,194,890	1,418,207	2,327,764	23,169,697
						1,522,496

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-Type Activities - Enterprise Funds						Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total	
<u>Noncurrent Liabilities:</u>							
Compensated Absences Payable	102,298	27,397	1,472,051	-	46,856	1,648,602	17,686
Advances from Other Funds	-	-	-	540,000	-	540,000	-
Notes and Bonds Payable	62,863,265	4,848,203	34,095,000	15,815,000	1,900,000	119,521,468	-
Less: Deferred Debt Refunding	(746,724)	(52,906)	-	(638,148)	(80,465)	(1,518,243)	-
Special Commission Bonds	-	-	-	-	93,737	93,737	-
Deferred Landfill Postclosure Cost	-	635,460	-	-	-	635,460	-
Deferred Revenue	17,750	-	21,500	-	9,203	48,453	-
Customer Deposits	-	375	-	-	-	375	-
Total Non-Current Liabilities	62,236,589	5,458,529	35,588,551	15,716,852	1,969,331	120,969,852	17,686
Total Liabilities	67,454,265	6,469,689	48,783,441	17,135,059	4,297,095	144,139,549	1,540,182
<u>NET ASSETS:</u>							
Invested in Capital Assets, Net of Related Debt	67,391,356	(1,070,289)	97,067,521	1,258,642	4,414,828	169,062,058	48,028
Restricted for:							
Debt Service	-	-	660,326	-	-	660,326	-
Unrestricted	2,909,757	1,340,676	10,120,467	797,685	144,653	15,313,238	8,062,301
Total Net Assets	\$ 70,301,113	270,387	107,848,314	2,056,327	4,559,481	185,035,622	8,110,329

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total
Operating Revenues:						
Charges for Services (Net)	\$ 21,653,506	8,216,085	138,386,545	1,725,985	3,215,936	173,198,057
Other Revenue	118,586	41,527	3,293,985	295,914	39,561	3,789,573
Total Operating Revenues	21,772,092	8,257,612	141,680,530	2,021,899	3,255,497	176,987,630
Operating Expenses:						
Administration	479,600	236,800	-	-	90,000	806,400
Personnel Services	6,064,225	1,698,240	-	-	2,570,391	10,332,856
Contractual Services	573,649	2,790,057	-	18,256	493,599	3,875,561
Materials and Supplies	633,030	225,134	-	733	182,728	1,041,625
Repairs and Maintenance	1,777,947	1,212,409	5,775,865	13,419	833,083	9,612,723
Bad Debt Expense	188,807	36,791	-	-	15,240	240,838
Items for Resale	-	-	-	-	67,096	67,096
Other Operating Expenses	2,996,933	167,602	121,116,432	682,351	193,177	125,156,495
Depreciation and Amortization	3,701,338	424,839	4,653,847	690,269	544,217	10,014,510
Total Operating Expenses	16,415,529	6,791,872	131,546,144	1,405,028	4,989,531	161,148,104
Operating Income (Loss)	5,356,563	1,465,740	10,134,386	616,871	(1,734,034)	15,839,526
Nonoperating Revenue (Expenses):						
Investment Income	574,397	82,817	421,954	13,189	74,956	1,167,313
Operating Grants	-	-	-	-	1,103,458	1,103,458
Interest Expenses and Commissions	(2,146,912)	(241,242)	(1,597,055)	(873,397)	(210,700)	(5,069,306)
Amortization-Bond Cost	(54,055)	(7,001)	(54,468)	(16,524)	(1,949)	(133,997)
Gain (loss) on Sale of Capital Assets	10,850	-	-	186,432	-	197,282
Total Nonoperating Revenues (Expenses)	(1,615,720)	(165,426)	(1,229,569)	(690,300)	965,765	(2,735,250)
						316,496

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	
Income (Loss) Before Transfers and Capital Contributions	3,740,843	1,300,314	8,904,817	(73,429)	(768,269)	13,104,276
<u>Transfers and Capital Contributions:</u>						
Transfers In	66,300	115,800	-	-	729,467	911,567
Transfers Out	(430,000)	(48,100)	(2,397,967)	-	(134,000)	(3,010,067)
Federal Capital Grant Revenue	-	-	-	-	320,035	320,035
State Capital Grant Revenue	-	-	-	-	498,177	498,177
Total Transfers and Capital Contributions	(363,700)	67,700	(2,397,967)	0	1,413,679	(1,280,288)
Change in Net Assets	3,377,143	1,368,014	6,506,850	(73,429)	645,410	11,823,988
Net Assets, July 1, 2005	66,923,970	(1,097,627)	101,341,464	2,129,756	3,914,071	173,211,634
Net Assets, June 30, 2006	\$ 70,301,113	270,387	107,848,314	2,056,327	4,559,481	185,035,622
						8,110,329

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total
Cash Flows from Operating Activities:						
Receipts from Customers and Users	\$ 20,799,290	8,110,920	138,115,378	701,369	3,235,453	170,962,410
Receipts from Interfund Services Provided	811,448	77,886	3,397,882	1,352,925	-	5,640,141
Payments to Employees	(5,983,509)	(1,678,333)	(7,024,088)	-	(2,540,486)	(17,226,416)
Payments from Contractor Deposits	156,336	4,097	393,274	-	-	553,707
Payments to Suppliers	(2,713,178)	(3,264,065)	(119,053,837)	(691,060)	(963,659)	(14,367,725)
Payments for Interfund Services Used	(3,754,615)	(1,405,530)	-	-	(868,001)	(6,028,146)
Net Cash Provided (Used) by Operating Activities	9,315,772	1,844,975	15,828,609	1,363,234	(1,136,693)	27,215,897
Cash Flows from Noncapital Financing Activities:						
Transfers to Other Funds	(430,000)	(48,100)	(2,397,967)	-	(134,000)	(3,010,067)
Advances from Other Funds	66,300	115,800	-	-	729,467	911,567
Operating Grants Received	-	-	-	-	1,023,590	1,023,590
Loans from Other Funds	-	-	-	(40,000)	115,136	75,136
Net Cash Provided (Used) by Noncapital Financing Activities	(363,700)	67,700	(2,397,967)	(40,000)	1,734,193	(999,774)
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Capital Debt	30,000,000	-	-	-	-	30,000,000
Proceeds from Revenue Notes Payable	-	-	11,813,850	-	-	11,813,850
Purchase of Capital Assets	(4,109,397)	(360,573)	(11,592,605)	-	(886,307)	(16,948,882)
Bond Issue Costs	(403,540)	-	-	(251,124)	-	(654,664)
Bond Proceeds	-	-	-	16,297,578	-	16,297,578
Capital Grants Received	-	-	-	-	818,212	818,212
Principal Paid on Capital Debt	(3,315,240)	(500,379)	(1,035,000)	(16,275,000)	(262,897)	(21,388,516)
Interest Paid on Capital Debt	(1,954,596)	(237,493)	(1,460,721)	(1,158,150)	(201,010)	(5,011,970)
Sale of Capital Assets	10,850	-	-	534,860	-	545,710
Proceeds from Notes Receivable	-	-	30,000	-	-	30,000
Principal Paid on Notes Receivable	84,999	-	-	-	-	84,999
Net Cash Used by Capital and Related Financing Activities	20,313,076	(1,098,445)	(2,244,476)	(851,836)	(532,002)	15,586,317
Cash Flows from Investing Activities:						
Interest and Related Income/Expenses on Investments	574,398	82,817	421,954	13,189	74,957	1,167,315
Purchase of Investments	-	-	(5,624)	-	-	(5,624)
Net Cash Provided by Investing Activities	574,398	82,817	416,330	13,189	74,957	1,161,691
						316,496

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds						Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total	
Net Increase (Decrease) in Cash and Cash Equivalents	29,839,546	897,047	11,602,496	484,587	140,455	42,964,131	1,709,241
Cash and Cash Equivalents, July 1, 2005	1,750,160	964,779	6,050,391	133,371	1,661,913	10,560,614	7,458,931
Cash and Cash Equivalents, June 30, 2006	\$ 31,589,706	1,861,826	17,652,887	617,958	1,802,368	53,524,745	9,168,172
Classified as:							
Current Assets	\$ 1,738,401	1,860,874	\$ 1,522,262	617,958	1,802,368	7,541,863	9,168,172
Restricted Assets	29,919,527	952	16,130,625	-	-	46,051,104	-
Current Liabilities	(68,222)	-	-	-	-	(68,222)	-
Totals	\$ 31,589,706	1,861,826	17,652,887	617,958	1,802,368	53,524,745	9,168,172
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	\$ 5,356,563	1,465,740	10,134,386	616,871	(1,734,034)	15,839,526	1,067,247
Adjustments:							
Depreciation	3,662,553	424,839	4,960,080	690,269	544,218	10,281,959	18,520
Amortization of Customer Base Landfill Postclosure Cost	38,785	-	-	-	-	38,785	-
Changes in the Allowance for Uncollectible Receivables	-	(37,380)	-	-	-	(37,380)	-
Changes in Assets and Liabilities:	76,095	-	173,816	-	-	249,911	-
(Increase) Decrease in Accounts Receivable	(43,005)	(32,016)	(315,286)	32,395	7,392	(350,520)	(852)
(Increase) Decrease in Inventories	(28,758)	-	142,196	-	8,108	121,546	(59,820)
(Increase) Decrease in Prepaid Expenses	-	-	92,194	7,256	-	99,450	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	22,124	(616)	470,400	16,443	19,915	528,266	478,015
Increase (Decrease) in Accrued Payroll Expenses	67,168	-	(296,865)	-	25,124	(204,573)	10,703
Increase (Decrease) in Compensated Absences	13,548	8,502	91,470	-	4,781	118,301	2,263
Increase (Decrease) in Construction Retainages	-	4,097	-	-	-	4,097	-
Increase (Decrease) in Customer Deposits	156,336	-	402,018	-	-	558,354	-
Other Payables	-	11,809	-	-	-	11,809	-
Increase (Decrease) in Deferred Revenue	(5,637)	-	(25,800)	-	(12,197)	(43,634)	-
Net Cash Provided (Used) by Operating Activities	\$ 9,315,772	1,844,975	15,828,609	1,363,234	(1,136,693)	27,215,897	1,516,076

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson City Public Building Authority	Other Nonmajor Funds	Total
Cash on Hand	100	-	-	-	3,087	3,187
Cash in Bank	1,452,032	-	-	-	-	1,452,032
Cash with Fiscal Agent	286,268	-	-	-	-	286,268
Equity Pooled Cash and Investments	(68,222)	-	-	-	-	(68,222)
Restricted Assets	29,919,527	952	-	-	-	29,920,479
Cash in From Central Depository	-	1,860,874	-	-	-	1,860,874
Cash Due From Central Depository	-	-	-	-	1,799,281	1,799,281
	31,589,705	1,861,826	-	-	1,802,368	35,253,899

Reconciliation of Cash and Cash Equivalents from Statement of Cash Flows:

Cash on Hand
Cash in Bank
Cash with Fiscal Agent
Equity Pooled Cash and Investments
Restricted Assets
Cash in From Central Depository
Cash Due From Central Depository

Non-Cash Capital and Related Financing Activities:

Water and Sewer:

- Amortization of Deferred Bond Refunding totaling \$103,979 was included with Interest Expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

City Solid Waste:

- Amortization of Deferred Bond Refunding totaling \$6,620 was included with Interest Expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Johnson City Power Board:

- The depreciation expense charge for the year ended June 30, 2006 was \$4,960,080 of which \$306,233 was charged to Other Operating Expenses.

Other Nonmajor Funds:

- Amortization of Deferred Bond Refunding totaling \$10,068 was included with Interest Expense on the Statement in Revenues, Expenses and Changes in Fund Net Assets.

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

	Johnson City Public Library	Johnson City Development Authority	Total
<u>ASSETS:</u>			
Cash on Hand	450	100	550
Cash in Bank	71,314	31,779	103,093
Accounts Receivable	4,243	-	4,243
Investments	178,768	-	178,768
Capital Assets:			
Book Collection	1,138,049	-	1,138,049
Equipment and Furniture	615,041	12,721	627,762
Less: Accumulated Depreciation	(560,974)	(11,631)	(572,605)
Total Assets	1,446,891	32,969	1,479,860
<u>LIABILITIES:</u>			
Accounts Payable	-	373	373
Accrued Payroll Expenses	23,476	1,112	24,588
Compensated Absences Payable	-	6,708	6,708
Total Liabilities	23,476	8,193	31,669
<u>NET ASSETS:</u>			
Invested in Capital Assets, net of			
Related Debt	1,192,116	1,090	1,193,206
Restricted Contributions	178,768	-	178,768
Unrestricted	52,531	23,686	76,217
Total Net Assets	1,423,415	24,776	1,448,191

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

For the Fiscal Year Ended June 30, 2006

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Charges for Services	Operating Contributions	Capital Grants and Contributions	Johnson City Public Library	Johnson City Development Authority	Total
Johnson City Public Library:						
General Government	1,613,101	67,739	1,431,563	(113,799)	-	(113,799)
Investment Related Expenditures	2,521	-	-	(2,521)	-	(2,521)
Total Johnson City Public Library	1,615,622	67,739	1,431,563	(116,320)	-	(116,320)
Johnson City Development Authority:						
Operations	134,927	2,337	119,207	-	(13,383)	(13,383)
Total Johnson City Development Authority	134,927	2,337	119,207	0	(13,383)	(13,383)
Total Component Units	\$ 1,750,549	\$ 70,076	\$ 1,550,770	\$ (116,320)	\$ (13,383)	\$ (129,703)
General Revenues:						
Unrestricted Investment Earnings				22,753	815	23,568
Other General Revenue				5,644	-	5,644
Gain on Disposal of Assets				-	-	-
Total General Revenues				28,397	815	29,212
Change in Net Assets				(87,923)	(12,568)	(100,491)
Net Assets, Beginning				1,590,089	37,344	1,627,433
Prior Period Adjustment-						
Decrease in Net Assets due to Change in Capitalization Policy				(78,751)	-	(78,751)
Adjusted Net Assets, Beginning				1,511,338	37,344	1,548,682
Net Assets, Ending				1,423,415	24,776	1,448,191

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Johnson City, Tennessee (the City) was incorporated in 1869 and operates under a Board of Commission – City Manager form of government. The City is part of a 12 county area in northeast Tennessee and southwest Virginia known as the Tri-Cities Tennessee/Virginia region.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Governmental Accounting and Financial Reporting Standards, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

A. Reporting entity

The accompanying financial statements present the City (primary government) and its component units, entities for which the City is considered to be financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on the organization or (2) there is a potential for the entity to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the primary government is required to consider other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that the entities are legally separate from the City.

Blended Component Units

Johnson City Public Building Authority (PBA)-The Johnson City Public Building Authority's Board of Directors is appointed by the City of Johnson City Commission. The PBA is organized to engage in activities necessary to implement functions or projects delegated to the authority by the Board of Commissioners of the City of Johnson City, including but not limited to the designing, planning, constructing, acquisition of property, maintenance and operation of a project commonly known as the Continuing Education Center. The PBA is reported as a blended component unit of the City because the services it provides almost entirely benefit the primary government. It is reported as an enterprise fund of the City because its principal operating revenues are charges for services.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Reporting entity (continued)

Discretely Presented Component Units

Johnson City Public Library-The Johnson City Public Library is a non-profit organization under IRC Section 501(c)3 incorporated in September 1989. The Library's Board of Directors is appointed by the City Commission and an appropriation of at least 80% of its annual support is provided by the City of Johnson City. The City is obligated to finance any deficits and all debt is financed by the City. The Library property is also owned and titled to the City of Johnson City. Separately issued financial statements may be requested from: Johnson City Public Library; 100 West Millard Street; Johnson City, TN 37604.

Johnson City Development Authority-The Johnson City Development Authority is an organization whose purpose is to facilitate business development within the City of Johnson City, Tennessee. The City of Johnson City Commission appoints a majority of the Development Authority's Board of Directors and may impose its will on the Development Authority since the City can remove appointed members of the Development Authority's Board of Directors. Separately issued financial statements may be requested from: Johnson City Development Authority; 207 E. Main Street, Suite 1-B; Johnson City, TN 37605.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. **Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, for local revenues, 120 days for state-shared revenues, and 360 days for grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Business taxes are not considered measurable and therefore are not susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *General Purpose School Fund* accounts for transactions of the City School System. The major sources of revenues for this fund are state-shared revenues and local property and sales taxes.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. **Measurement focus, basis of accounting, and financial statement presentation (continued)**

The City reports the following nonmajor governmental funds:

The *Freedom Hall Civic Center Fund* accounts for the revenues generated from the Civic Center's operations. Fee revenues are supplemented by the General Fund to the extent of the facilities cost.

The *School Federal Projects Fund* accounts for all revenues received under this law.

The *Special School Projects Fund* accounts for all revenues received for various special projects for the schools.

The *School Food Service Fund* accounts for the revenues and expenditures of school cafeterias.

The *School Site Based Fund* accounts for the revenue and expenditures of the school activity funds.

The *Transportation Planning Fund* accounts for special state and federal transportation planning projects through state and federal revenues.

The *Drug Fund* accounts for drug fines awarded by court action.

The *Police Grant Fund* accounts for all police grants from the federal, state and local governments.

The *Community Development Fund* accounts for Housing and Urban Development Funds.

The *Senior Citizens Fund* accounts for contributions and fund raising for the Senior Citizens Center.

The *Employee Scholarship Fund* accounts for donations from city employees to fund scholarships for children of city employees who are entering college.

The *Homeless Fund* accounts for contributions on behalf of the homeless.

The *Public Aid Fund* accounts for donations received from the public to be used to subsidize the City's general operations in an effort to divert future increases in property taxes.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

C. **Measurement focus, basis of accounting, and financial statement presentation (continued)**

The *Debt Service Fund* accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation debt of governmental funds.

Various Project Funds include the *Equipment, Parks, Public Facilities, Infrastructure and Schools Funds* which account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The *Industrial Park Fund* accounts for the J.C. Industrial Park expansion expenditures and revenues.

The *Med Tech Park Fund* accounts for the Med Tech Park expansion expenditures and revenues.

The *Permanent Fund (School Trust Fund)* accounts for nonexpendable assets left to the City by the late Paul Gollong. The fund's earnings are used for awarding scholarships to graduating high school students.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the activities of the City's production, storage and transportation of potable water and the City's collection, transportation, treatment and disposal of wastewater.

The *City Solid Waste Fund* accounts for the activities of the City's collection of residential garbage refuse collection and recycling activities within the City limits.

The *Johnson City Power Board Fund* accounts for the activities of the City's electric distribution operations.

The *Johnson City Public Building Authority Fund* accounts for the activities of the PBA, a blended component unit of the City. The PBA's main activity is to design, plan, acquire property and construct projects delegated to the authority by the Board of Commissioners. The primary source of revenue is rental income.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. **Measurement focus, basis of accounting, and financial statement presentation (continued)**

The City reports the following nonmajor proprietary funds:

The *Golf Course Fund* accounts for the activities of the City's two 18 hole golf courses.

The *Regional Solid Waste Fund* accounts for the activities of the City's regional residential garbage, refuse collection and recycling activities.

The *Mass Transit Fund* accounts for activities funded by federal grants from the FTA and state grants provided from federal funds for support of local government transportation programs.

Additionally, the City reports the following fund type:

The *Internal Service Funds (Motor Transport Fund and Insurance Fund)* account for fleet management and insurance services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement focus, basis of accounting, and financial statement presentation (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (police, fire, public works, etc.).

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents, as shown on the proprietary fund cash flow statements, are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes impose various restrictions on the City's and its component units' deposits and investments, including repurchase agreements. These restrictions are summarized as follows:

DEPOSITS - All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Assets, liabilities and net assets or equity (Continued)

1. Deposits and investments (continued)

INVESTMENTS - State statutes authorize the City to invest in treasury bonds, notes or bills of the United States of America; nonconvertible debt securities of the Federal Home Loan Bank, The Federal National Mortgage Association, The Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States of America or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States of America or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; The State of Tennessee Local Government Investment Pool (LGIP); obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

Specifically, the LGIP was established under Tennessee Code Annotated Title 9, Chapter 4, Part 7. This investment pool is established for the use of idle funds of local governments located within the State of Tennessee. These funds are placed by the participating entity into accounts that are held and invested by the State Treasurer. The LGIP invests in time deposits, such as Certificates of Deposit, commercial paper, United States of America agency securities, repurchase agreements, and United States of America treasuries. By law, the LGIP is required to maintain a 90-day or less weighted-average-maturity. The fair value of shares held in the LGIP is the same as the value of the LGIP shares. The TN LGIP has not been rated by a nationally recognized statistical rating organization.

The City utilizes a cash management plan for all cash in checking for all funds, except for the school funds which have their own bank accounts. One bank account is used for disbursements for the City. Other accounts are maintained for utility collections of the regional systems, which are periodically transferred to the General Disbursement Account and for Debt Service. The balance of cash in each fund is maintained on the City's records and reconciled to the total in the General Disbursement Account. Cash overdrafts are reflected in the financial statements as Cash Due to Central Depository.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Assets, liabilities and net assets or equity (continued)

1. Deposits and investments (continued)

The cash management plan provides that the balance in the bank is invested on a daily basis at the current interest rates. Interest income is allocated to the individual funds based on the average cash balance of the individual funds. Likewise, interest expense is charged to funds with an overdraft. The plan is presently with First Tennessee Bank. Bids are obtained from all banks to obtain the best possible rates.

Investments for the City, as well as for its blended component unit, are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable and trade receivables allowance accounts are based on prior years' collection experience.

Property taxes are levied on September 1 on property values assessed as of January 1. The billings are mailed by September 1st and a 1% discount is allowed through September 30th. After December 31, the tax bill becomes delinquent and penalty and interest are assessed. Property taxes are declared to be a lien on the property after January 10th of the year of assessment.

3. Inventories and prepaid items

All inventories of governmental funds are valued at cost using the first-in/first-out (FIFO) method and are recorded as expenditures at the time purchased. All such inventories on hand at year-end are reported as assets and are fully reserved in the equity section of the fund financial statements.

All inventories of proprietary funds are valued at cost utilizing the weighted average or FIFO method and are expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and proprietary fund financial statements.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Assets, liabilities and net assets or equity (continued)

4. *Restricted assets*

Certain cash and investment balances of the City are classified as restricted assets on the statement of net assets because they are maintained in separate accounts and their use is limited by certain agreements and contracts with third parties. Restricted cash includes sinking fund accounts established to meet the requirements of certain bonds issues, escrow for construction contractors established to fund retainages of outstanding construction projects upon their completion, and savings accounts for tax equivalent payments, capital improvements, and unexpected expenses. Restricted investments include securities held for larger claims of a self insurance program.

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year for property, plant and equipment and assets with an initial, individual cost of more than \$100,000 for infrastructure. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest and related fees incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed. Total interest and related fees incurred by the Water and Sewer Fund during the current fiscal year were \$2,146,912. During the fiscal year ended June 30, 2006, no significant amounts of interest and related fees were capitalized in connection with water and sewer line replacement and extension construction projects.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Assets, liabilities and net assets or equity (continued)

5. Capital assets (continued):

Property, plant, and equipment of the primary government, as well as the blended component unit, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Roads and bridges	40
Buildings and building improvements	30
Golf course improvements	15
Landfill improvements	25
Fire Trucks	20
Utility lines	45
School Buses, Passenger Vans	15
Machinery, equipment and heavy vehicles	10
Office Equipment/Automobiles	7
Computer Equipment/Software Licenses	3

Assets of the Johnson City Power Board are depreciated over the useful lives guidelines of the Tennessee Valley Authority. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized as per federal energy regulations. The useful lives range from 3 years to 50 years. The Power Board's depreciation expense for the year ended June 30, 2006 was \$4,960,080 of which \$306,233 was charged to Other Operating Expenses.

6. Compensated absences

Policy of City except for Schools. Vacation benefits apply to all full-time and regular part-time employees who have completed six (6) months of continuous employment. Vacation accrues as follows:

<u>Years of Service</u>	<u>Vacation Days</u>	<u>Monthly Hourly Accrual</u>
Under 10 years of service	10	6.67
10 to 15 years of service	15	10.00
15 years of service	16	10.67
17 years of service	17	11.34
19 years of service	18	12.00
21 years of service	19	12.67
23+ years of service	20	13.34

Vacation accruals for members of the Fire Bureau are based on a twenty-four (24) hour day. Current hours earned per month are multiplied by 1.477 to reach an hourly vacation accrual.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

D. **Assets, liabilities and net assets or equity (continued)**

6. *Compensated absences (continued)*

Sick leave accumulates at the rate of eight (8) hours per month for regular full-time and on a pro-rata basis for regular part-time employees. For Fire Bureau employees, a day equals twenty-four (24) hours and sick leave will accrue at twenty-four (24) hours a month unless Fire Bureau employees are assigned to an eight (8) hour shift then they will accumulate at the rate of eight (8) hours per month. Sick leave may be accumulated with no maximum on number of days. There is no liability for unpaid accumulated sick leave since no obligation exists for payment of accumulated sick leave upon termination for reasons other than death or retirement. Upon retirement for an employee who has completed 15 years of service, the sick leave accumulated is credited to the years of service or the employee may elect to receive compensation at the rate of two (2) days of sick leave at the employee's regular rate for every completed year of service, not to exceed the days accumulated in the employee's account. In the event of death; one-third of the accumulated amount is paid to the beneficiary. It is also the City's policy to permit employees from certain departments of the City to accumulate earned but unused compensation for excess hours worked. All compensatory time is accrued when incurred in the government-wide and fund financial statements.

Policy of Schools. Teachers' vacations and sick leaves are in accordance with state policies. Most other school employees do not accumulate vacation or sick leave in excess of a normal year's accumulation. Vacation is earned and accumulates at one day per month. Administrative personnel are allowed to accumulate vacation days and may earn up to 20 days per year after 10 years of service. Employees have eighteen months to use the vacation time or it is lost. Five days of vacation can be converted to sick time for carryover for retirement. Unused sick time is not compensated. Accrued vacation has been recorded for the twelve month administrative personnel in the government-wide and fund financial statements. It is estimated that any accrual for ten month employees would be immaterial.

Policy of the Johnson City Power Board. Employees earn various vacation days determined on years of service. Vacation days can be accumulated to a maximum of forty (40) days, which are payable upon separation of employment. Sick leave is granted after ninety (90) days of employment. The employee earns one (1) day for each one (1) full month employed. Sick leave can be accumulated with no limitation as to the number of days. No obligation exists for payment of accumulated sick leave upon termination for reasons other than death or retirement. On date of retirement or death, the Power Board is obligated for seventy-five percent (75%) of accumulated days. A liability for compensated absences and related fringe benefits is reflected in the statement of net assets and in the proprietary fund financial statements.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Assets, liabilities and net assets or equity (continued)

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method or the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. *Reclassifications*

Certain reclassifications have been made to the June 30, 2005 financial statements in order for them to conform to the June 30, 2006 financial statement presentation.

10. *Use of estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets- governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." This difference does not include capital assets from the internal service funds. The details of this \$182,626,689 difference are as follows:

Governmental funds capital assets	\$ 317,556,309
Less: accumulated depreciation	<u>(134,929,620)</u>

Net adjustment to increase <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ 182,626,689</u>
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Another element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$115,620,281 difference are as follows:

Bonds payable (net of deferred refunding)	\$ 114,288,142
Notes payable	1,229,264
Capital lease payable	<u>102,875</u>

Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ 115,620,281</u>
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of general fixed assets in the current period exceeded capital outlays." This difference does not include depreciation expense of \$18,520 relating to internal service funds. The details of this \$287,640 difference are as follows:

Capital outlay	\$ 8,814,427
Depreciation expense	<u>(8,526,787)</u>

Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 287,640</u>
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CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED):

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets." The details of this \$(1,454,970) difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Sales Proceeds	\$ (1,490,276)
Gain/Loss on Sale of Assets	<u>35,306</u>
	\$ <u>(1,454,970)</u>

Another element of that reconciliation states that "revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this \$19,423 difference are as follows:

Deferred property taxes as of June 30, 2006	\$ 921,993
Deferred property taxes as of June 30, 2005	(894,884)
Deferred other taxes as of June 30, 2006	718,472
Deferred other taxes as of June 30, 2005	<u>(726,158)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>19,423</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the amount by which repayments exceeded proceeds." The details of this \$813,491 difference are as follows:

Principal repayments	\$ 13,727,560
Proceeds from bonds	(13,230,000)
Amortization of deferred refunding	(13,507)
Deferred refunding	<u>329,438</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>813,491</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary information

Annual budgets for the General Fund, certain Special Revenue Funds (Freedom Hall, School Federal Projects, Special School Projects, School Food Service, Transportation Planning, Drug Fund, Police Grant Fund and Community Development) and the Debt Service Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). An annual budget is also adopted for the General Purpose School Fund, which is adopted on the modified accrual basis plus encumbrances. All annual appropriations lapse at year end.

The City Manager is required by charter to present to the Board of Commissioners an estimate of expenditures and revenue of the City for the ensuing fiscal year. The estimates are to be compiled from detailed information obtained from the departments of the City. The Board of Commissioners then prepares a tentative appropriation ordinance. Three readings of the appropriation ordinance must be approved on or before June 30, after which date the new budget goes into effect.

As a management control, annual budgets are prepared for the General Fund, Special Revenue Funds (excluding the Senior Citizens, Employee Scholarship, Homeless, Public Aid Funds, and School Site Based Fund), Debt Service Fund, and Proprietary Funds (excluding the Johnson City Power Board and Johnson City Public Building Authority). Appropriations for the General Fund and Special Revenue Funds are authorized at the department or function level except for the Community Development Fund, which is authorized on the project level on an annual basis to satisfy the U.S. Department of Housing and Urban Development requirements. The remaining funds' budgets are authorized at the Fund level. Supplemental appropriations may be authorized by ordinance during the year.

Encumbrance accounting is employed in the General Purpose School Fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Fund balance for the General Purpose School Fund shown on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds differs from the Fund balance shown on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Purpose School Fund due to encumbrances as follows:

	<u>General Purpose School Fund</u>
Fund Balance-Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	\$ 7,324,835
Less: Encumbrances	<u>(671,339)</u>
Fund Balance-Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	\$ <u>6,653,496</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED):

B. Excess of expenditures over appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations in the listed departments within the following major governmental funds:

	<u>Over spent Amount</u>
General Fund:	
Public Safety	\$ 29,516
Public Works	17,049
Debt Services	5,530,791

For the year ended June 30, 2006, expenditures exceeded appropriation in the following non-major governmental funds:

	<u>Overspent Amount</u>
Special Revenue Fund:	
School Food Service	\$ 135,849
Drug Fund	24,179

C. Deficit fund equity

The following funds had deficit net assets/fund balance at June 30, 2006:

Special Revenue Funds:	
Police Grant Fund	\$ (6,991)
Capital Projects Funds:	
Industrial Park Fund	\$ (1,573,251)
Enterprise Funds:	
Golf Courses Fund	(1,075,328)

The deficit in the Police Grant Fund will be eliminated by future reimbursements.

The deficit in the Industrial Park Fund will be eliminated by future reimbursements.

The deficit in the Golf Courses Fund is due to expenses consistently exceeding revenues.

4. DETAILED NOTES ON ALL FUNDS:

A. Deposits and investments

Cash deposits on the statement of net assets include demand deposits, certificates of deposit, savings accounts, cash on deposit with paying agents, cash on deposit with the State of Tennessee and cash deposited in escrow accounts.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS:

Deposits

Custodial Credit Risk.

The City's policy for custodial credit rate risk on deposits is to follow state guidelines.

At year end, the City had \$24,950 of cash on hand which has been included in cash and cash equivalents. The City's carrying amount of deposits was \$100,350,617 and the bank balance was \$103,261,277. Of the City's bank balance, \$66,213,622 was covered by the State of Tennessee Collateral Pool, which is a multiple financial institution collateral pool, or by amounts insured by the Federal Deposit Insurance Corporation (FDIC) and \$100,000 was covered by the National Credit Union Share Insurance Fund. State statutes require collateral pledged by each financial institution to equal a certain percentage of the uninsured public deposits it holds. Members of the pool can be assessed if the collateral is inadequate to cover a loss. This is similar to depository insurance. Of the remaining City balance, \$36,914,837 represents cash in trust accounts which are insured by the FDIC. As of June 30, 2006, \$32,818 of the government's bank deposits was uninsured because the financial institution where the funds were held did not pledge securities to protect the balance in the government's name.

In addition to the above deposits, the City has \$308,471 on deposit with the State of Tennessee at June 30, 2006.

Investments

Custodial Credit Risk.

The City's investment policy is to ensure the preservation of capital in the overall investment portfolio. The City will emphasize the safety of capital first, maintain sufficient liquidity to meet obligations second, and gain the highest possible yield third. All investments made by the City will be in accordance with applicable state guidelines. The City does not allow for an investment in securities maturing more than two years from the date of issue.

At June 30, 2006, the City's investments were as follows:

Investment Type:	<u>Primary Government</u>	
	Reported <u>Amount</u>	Fair <u>Value</u>
Local Government Investment Pool (LGIP)	\$ 308,471	308,471
Money Market Funds	251,182	251,182
U.S. Government Securities	<u>2,030,952</u>	<u>2,030,952</u>
Total Primary Government	\$ <u>2,590,605</u>	<u>2,590,605</u>

The U.S. Government Securities are reflected on the statement of net assets as investments.

The LGIP and money market investments have been included in cash and cash equivalents since they are comprised of short term investments.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments

Interest Rate Risk:

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series III-C-1.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$11.5 million Series III-C-1 variable-rate bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate.

Terms. Under the swap, the Authority pays a fixed payment of 4.66 percent and receives a variable payment computed as 100 percent of the rate paid on the outstanding variable rate bond associated to the swap. The swap had a notional amount of \$11.5 million and the associated variable-rate bond had an \$11.5 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series III-C-1 Bonds. The bonds' variable-rates have historically approximated the Bond Market Association Municipal Index™ (the "BMA"). The bonds and the related swap agreement mature on June 1, 2018. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment by Authority	Fixed	4.66%
Variable payment to Authority		<u>-4.00%</u>
Net interest rate swap payments		0.66%
Variable-rate bond coupon payments		<u>4.00%</u>
Synthetic interest rate on bonds		<u>4.66%</u>

Fair value. As of June 30, 2006, the swap had a negative fair value of (\$84,653). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments

Interest Rate Risk:

Credit risk. As of June 30, 2006, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the Authority, on behalf of the City, received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service as of June 30, 2006. If Ambac's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

Basis risk. The variable interest payment the City receives from the counterparty is the same as the variable rate interest paid on the outstanding bonds associated to the swap. Therefore, there is no basis risk.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	<u>Variable Rate Bonds</u>		Net Interest Rate Swap Payment	Total
	<u>Principal</u>	<u>Interest</u>		
2007	635,000	271,800	44,847	951,647
2008	670,000	246,400	40,656	957,056
2009	705,000	219,600	36,234	960,834
2010	435,000	191,400	31,581	657,981
2011	455,000	174,000	28,710	657,710
2012-2016	2,645,000	577,600	95,304	3,317,904
2017-2018	<u>1,250,000</u>	<u>75,600</u>	<u>12,474</u>	<u>1,338,074</u>
	<u>6,795,000</u>	<u>1,756,400</u>	<u>289,806</u>	<u>8,841,206</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments

Interest Rate Risk:

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series III-C-2.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$10.2 million Series III-C-2 variable-rate bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate.

Terms. Under the swap, the Authority pays a fixed payment of 4.66 percent and receives a variable payment computed as 100 percent of the rate paid on the outstanding variable rate bond associated to the swap. The swap had a notional amount of \$10.2 million and the associated variable-rate bond had an \$10.2 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the Series III-C-2 Bonds. The bonds' variable-rates have historically approximated the Bond Market Association Municipal Index™ (the "BMA"). The bonds and the related swap agreement mature on June 1, 2018. As of June 30, 2006, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.66%
Variable payment from counterparty		<u>-4.00%</u>
Net interest rate swap payments		0.66%
Variable-rate bond coupon payments		<u>4.00%</u>
Synthetic interest rate on bonds		<u><u>4.66%</u></u>

Fair value. As of June 30, 2006, the swap had a negative fair value of (\$97,760). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

A. Deposits and investments

Interest Rate Swap Agreements:

Credit risk. As of June 30, 2006, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was unrated at the time of the swap. In order to mitigate the potential for credit risk, the Authority, on behalf of the City, received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service as of June 30, 2006. If Ambac's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

Basis risk. The variable interest payment the City receives from the counterparty is the same as the variable rate interest paid on the outstanding bonds associated to the swap. Therefore, there is no basis risk.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	<u>Variable Rate Bonds</u>		Net Interest Rate Swap Payment	Total
	<u>Principal</u>	<u>Interest</u>		
2007	470,000	299,400	49,401	818,801
2008	495,000	280,600	46,299	821,899
2009	520,000	260,800	43,032	823,832
2010	545,000	240,000	39,600	824,600
2011	570,000	218,200	36,003	824,203
2012-2016	3,315,000	724,800	119,592	4,159,392
2017-2018	<u>1,570,000</u>	<u>95,000</u>	<u>15,675</u>	<u>1,680,675</u>
	<u>7,485,000</u>	<u>2,118,800</u>	<u>349,602</u>	<u>9,953,402</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables	General	General Purpose School	Other Governmental Funds	Water and Sewer	City Solid Waste	Johnson City Power Board	Johnson Public Building Authority	Internal Service Funds	Other Proprietary Funds	Total Primary Government
Taxes	\$26,473,941	-	553,760	-	-	-	-	-	-	27,027,701
Accounts	1,236,422	68,282	1,338	1,876,445	740,962	9,373,158	10,467	8,698	129,338	13,445,110
Notes	-	-	106,193	-	-	262,500	-	-	-	368,693
Intergovernmental	5,150,414	10,372,294	1,163,629	108,039	-	-	-	-	357,527	17,151,903
Gross receivables	32,860,777	10,440,576	1,824,920	1,984,484	740,962	9,635,658	10,467	8,698	486,865	57,993,407
Less: Allowances for										
Uncollectibles	(73,725)	-	-	(1,023,361)	(218,680)	(649,776)	-	-	(80,110)	(2,045,652)
Net total receivables	<u>\$ 32,787,052</u>	<u>10,440,576</u>	<u>1,824,920</u>	<u>961,123</u>	<u>522,282</u>	<u>8,985,882</u>	<u>10,467</u>	<u>8,698</u>	<u>406,755</u>	<u>55,947,755</u>

Revenues of the General, Water and Sewer, Johnson City Power Board, Johnson City Public Building Authority and City and Regional Solid Waste Funds are reported net of uncollectible amounts.

Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to:

water and sewer services	\$ 188,807
solid waste services	36,791
nonmajor and other funds	15,240
	<u>\$ 240,838</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Property taxes receivable (General Fund)	\$ -	25,312,731
Delinquent property taxes receivable (General Fund)	921,993	-
Other taxes receivable (General Fund)	718,472	-
Property taxes receivable (General Purpose School Fund)	-	7,912,259
Ticket sales prior to event date (Freedom Hall)	-	7,227
Grant drawdowns prior to meeting all eligibility requirements (Special School Projects, Police Grant and Community Development)	-	143,205
Total deferred / unearned revenue for governmental funds	<u>\$ 1,640,465</u>	<u>33,375,422</u>

Property taxes which are delinquent at year end are earned but not available. The tax year 2006 property taxes are unearned and unavailable, but are recorded as receivable on the levy date, as described in Note 1.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Primary Government				
	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 17,495,946	107,097	(317,298)	(210,184)	17,075,561
Construction in Progress	3,385,534	1,970,759	(2,704,565)	(1,163,964)	1,487,764
Total capital assets, not being depreciated	20,881,480	2,077,856	(3,021,863)	(1,374,148)	18,563,325
Capital assets, being depreciated:					
Buildings	136,879,900	2,848,396	(1,896,648)		137,831,648
Equipment and Vehicles	28,659,951	1,315,939	(306,385)	-	29,669,505
Infrastructure	126,879,690	5,287,800	-		132,167,490
Total capital assets, being depreciated	292,419,541	9,452,135	(2,203,033)	-	299,668,643
Accumulated depreciation:					
Buildings	(57,466,019)	(3,603,627)	758,974		(60,310,672)
Equipment and Vehicles	(19,474,888)	(1,944,598)			(21,419,486)
Infrastructure	(51,136,396)	(2,997,082)	306,387		(53,827,091)
	(128,077,303)	(8,545,307)	1,065,361	-	(135,557,249)
Total capital assets, being depreciated, net	164,342,238	906,828	(1,137,672)	-	164,111,394
Governmental activities capital assets, net	\$ 185,223,718	2,984,684	(4,159,535)	(1,374,148)	182,674,719

A prior period adjustment was reported in 2006 in the amount of \$1,374,148. Of the total prior period adjustment, \$1,163,964 is to adjust for expenditures previously recognized as construction in progress. The expenditures were incurred in an infrastructure project that will not result in any additions to infrastructure as defined by the Governmental Accounting Standards Board. There is also an adjustment of \$210,184 to remove land that was previously sold. The gain associated with the land was reported in a prior year. The total is shown as a prior period adjustment on the government wide statements. Total governmental funds capital assets, net of accumulated depreciation as originally reported in 2005 were \$185,223,718. The effect of the adjustment is to reduce the prior year total capital assets used in governmental funds by \$1,374,148, resulting in total governmental funds capital assets, net of accumulated depreciation as of June 30, 2005 of \$183,849,570.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital Assets, not being depreciated:				
Land	14,268,402	8,804	(348,428)	13,928,778
Construction in progress	7,624,592	3,366,235	-	10,986,825
Total capital assets, not being depreciated	21,892,994	3,375,039	(348,428)	24,915,603
 Capital Assets, being depreciated:				
Buildings and other improvements	46,942,369	331,188	-	47,273,557
Plant in service	265,587,393	10,692,971	(1,676,324)	274,608,042
Equipment and vehicles	24,304,295	2,169,216	(444,837)	26,028,674
Total capital assets, being depreciated	336,834,057	13,193,375	(2,121,161)	347,910,273
 Accumulated Depreciation:				
Buildings and other improvements	(16,811,206)	(1,165,997)		(8,499,271)
Plant in Service	(77,674,823)	(7,077,364)	2,104,781	(92,126,826)
Vehicles and Equipment	(14,130,491)	(2,038,598)	398,336	(15,770,753)
Accumulated depreciation	(108,616,520)	(10,281,959)	2,503,117	(116,396,850)
Total capital assets, being depreciated, net	228,217,537	2,911,416	381,956	231,513,423
Business-type activities capital assets, net	250,110,531	6,286,455	33,528	256,429,026

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 580,967
Education	3,370,979
Public Welfare	313,957
Public Works	3,733,720
Public Safety	330,108
City Service	215,576
Total depreciation expense – governmental activities	\$ 8,545,307

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

C. Capital assets (continued)

Business-type activities:	
Water Sewer	\$ 3,662,553
City Solid Waste	424,839
Johnson City Power Board	4,960,080
Johnson City Public Building Authority	690,269
Golf Course Fund	104,131
Regional Solid Waste	121,748
Mass Transit	<u>318,339</u>
Total depreciation expense – business-type activities	<u>\$ 10,281,959</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Johnson City PBA	\$ 493,512
General Purpose School	School Federal Projects	479,297
	Special School Projects	63,403
Special School Projects	Community Development	6,119
Insurance Fund	General Purpose School	16,901
Johnson City Power Board	General	151,333
	Water Sewer	166,180
Johnson City PBA	General	<u>11,171</u>
Total		<u>\$ 1,387,916</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Johnson City PBA	\$ <u>540,000</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

D. Interfund receivables, payables, and transfers (continued)

Advances to/from other funds:

The balance payable to the general fund relates to loans made to the PBA to fund operations. The PBA paid \$40,000 in principal during the year ended June 30, 2006.

Interfund Transfers:

<u>Transfers In:</u>								
<u>Governmental Activities</u>		<u>Business Type Activities</u>						
	<u>General Fund</u>	<u>General Purpose School</u>	<u>Nonmajor Governmental Funds</u>	<u>Water and Sewer</u>	<u>City Solid Waste</u>	<u>Nonmajor Proprietary Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
<u>Transfers Out:</u>								
Governmental Funds:								
General Fund	\$ -	7,832,675	2,957,446	-	-	729,467	11,500	11,531,088
General Purpose School Fund	-	-	1,749,652	-	-	-	-	1,749,652
Nonmajor Governmental Funds	57,390	6,739	18,348	-	-	-	-	82,477
Enterprise Funds:								
Johnson City Power Board	2,397,967	-	-	-	-	-	-	2,397,967
Water and Sewer	430,000	-	-	-	-	-	-	430,000
City Solid Waste	-	-	-	48,100	-	-	-	48,100
Nonmajor Proprietary Funds	-	-	-	18,200	115,800	-	-	134,000
Totals	<u>\$ 2,885,357</u>	<u>7,839,414</u>	<u>4,725,446</u>	<u>66,300</u>	<u>115,800</u>	<u>729,467</u>	<u>11,500</u>	<u>16,373,284</u>

Transfers are used to 1) move revenues from the fund with collections authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

In the year ended June 30, 2006 the City made a one time transfer of \$213,240 from the general fund to the freedom hall fund to reclassify the salaries of certain maintenance personnel whose salaries were being paid by the General Fund but whose services were administered to Freedom Hall.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

E. Lease Revenue

Lease Revenue

The City acts as a lessor for various City properties. The City collects rents on these properties and maintains signed lease agreements with the various tenants. The revenue is reflected in the fund that owns the property. During the year ended June 30, 2006, the City earned revenue from the leases in the amount of \$313,037.

F. Long-Term Debt

Governmental Activities:

Notes Payable:

General obligation notes currently outstanding and the funds from which they will be paid are as follows:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2006</u>
<u>Capital Projects Fund:</u>				
Note Payable-Land	07-01-97	2,238,049	5.00%	689,264
<u>General Fund:</u>				
Capital Outlay Note - School Buses	12-20-04	620,000	Variable	<u>540,000</u>
				<u>\$ 1,229,264</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (continued)

Governmental Activities (continued):

Notes Payable (continued):

Notes payable for land issued July 1, 1997 debt service requirements to maturity in 2009 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 218,506	31,766	250,272
2008	229,568	20,704	250,272
2009	<u>241,190</u>	<u>9,082</u>	<u>250,272</u>
	<u>\$ 689,264</u>	<u>61,552</u>	<u>750,816</u>

Notes payable for school buses issued December 20, 2004, debt service requirements to maturity in 2012 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 83,000	18,630	101,630
2008	85,000	15,767	100,767
2009	88,000	12,834	100,834
2010	91,000	9,798	100,798
2011	95,000	6,658	101,658
2012	<u>98,000</u>	<u>3,381</u>	<u>101,381</u>
	<u>\$ 540,000</u>	<u>67,068</u>	<u>607,068</u>

Total annual debt service requirements to maturity for governmental activities notes payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 301,506	50,396	351,902
2008	314,568	36,471	351,039
2009	329,190	21,916	351,106
2010	91,000	9,798	100,798
2011	95,000	6,658	101,658
2012	<u>98,000</u>	<u>3,381</u>	<u>101,381</u>
	<u>\$ 1,229,264</u>	<u>128,620</u>	<u>1,357,884</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Bonds Payable:

General Obligation Bonds currently outstanding and the funds from which they will be paid are as follows:

<u>Debt Service Fund:</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2006</u>
Sales Tax and Tax Refunding Bonds, Series 1997	05-01-97	29,477,802	5.25%-5.60%	29,477,803
Sales Tax Revenue and Unlimited Tax Refunding Bonds, Series 1998	07-15-98	3,280,000	4.10%-4.75%	2,755,000
Public Improvement Bonds, Series III-A-6	03-19-99	7,000,000	Variable	<u>5,130,000</u>
				<u>37,362,803</u>

General Fund:

General Obligation Public Improvement Refunding Bonds, Series 1997	05-01-97	3,815,000	5.00%-5.50%	3,570,000
General Obligation Public Improvement Refunding Bonds Series 1998	07-15-98	5,870,000	4.10%-4.75%	1,035,000
General Obligation School and Road Refunding Bonds, Series 1998	07-15-98	5,355,000	4.10%-4.75%	1,895,000
General Obligation Public Improvement Refunding Bonds, Series 1998	07-15-98	8,835,000	4.10%-4.75%	7,445,000

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Governmental Activities (Continued):

Bonds Payable (Continued):

<u>General Fund (Continued):</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2006</u>
Public Improvement Bonds, Series III-C-1	10-29-98	11,500,000	Variable	6,795,000
Local Government Improvement Bonds, Series IV-B-6	01-01-00	10,700,000	Variable	7,965,000
General Obligation Bonds, Series 2000	07-27-00	8,000,000	5.00%-5.375%	675,000
Local Government Improvement Bonds, Series IV-F-1	12-28-00	10,000,000	Variable	8,755,000
Local Government Improvement Bonds, Series IV-G-2	05-08-01	9,100,000	Variable	9,100,000
Tennessee Municipal Bond Fund, Series 2001	06-27-02	921,038	Variable	205,698
General Obligation Refunding Bonds, Series 2004A	09-23-04	11,460,900	3.00%-4.40%	9,338,142
General Obligation Refunding Bonds, Series 2004B	12-29-04	7,625,000	3.00%-4.40%	7,355,000
Local Government Public Improvement Bonds, Series D-6-A	02-15-06	7,000,000	5.00%	7,000,000
General Obligation Refunding Bonds, Series 2006	03-30-06	6,230,000	3.50%-4.125%	<u>6,145,000</u>
				<u>\$ 77,278,840</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Governmental Activities (Continued):

Bonds Payable (Continued):

Sales Tax and Tax Refunding Bonds issued May 1, 1997 debt service requirements to maturity in 2021 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 521,513	1,723,432	2,244,945
2008	574,433	1,820,512	2,394,945
2009	625,751	1,934,194	2,559,945
2010	664,686	2,055,259	2,719,945
2011	780,713	2,274,232	3,054,945
2012-2016	9,430,707	8,734,678	18,165,385
2017-2021	<u>16,880,000</u>	<u>2,644,320</u>	<u>19,524,320</u>
	<u>\$ 29,477,803</u>	<u>21,186,627</u>	<u>50,664,430</u>

Sales Tax Revenue and Unlimited Tax Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2016 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 220,000	134,868	354,868
2008	235,000	125,298	360,298
2009	245,000	112,960	357,960
2010	255,000	100,098	355,098
2011	270,000	86,710	356,710
2012-2016	<u>1,530,000</u>	<u>223,823</u>	<u>1,753,823</u>
	<u>\$ 2,755,000</u>	<u>783,757</u>	<u>3,538,757</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

Public Improvement Bonds Series III-A-6 issued March 19, 1999 debt service requirements to maturity in 2018 are as follows. The interest rate is variable, but is depicted at an estimated 6%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 325,000	307,800	632,800
2008	340,000	288,300	628,300
2009	355,000	267,900	622,900
2010	375,000	246,600	621,600
2011	390,000	224,100	614,100
2012-2016	2,270,000	744,600	3,014,600
2017-2018	<u>1,075,000</u>	<u>97,500</u>	<u>1,172,500</u>
	<u>\$ 5,130,000</u>	<u>2,176,800</u>	<u>7,306,800</u>

General Obligation Public Improvement Refunding Bonds issued May 1, 1997 debt service requirements to maturity in 2020 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 185,000	192,473	377,473
2008	195,000	183,223	378,223
2009	205,000	173,375	378,375
2010	215,000	162,818	377,818
2011	230,000	151,530	381,530
2012-2016	1,365,000	557,065	1,922,065
2017-2020	<u>1,175,000</u>	<u>146,025</u>	<u>1,321,025</u>
	<u>\$ 3,570,000</u>	<u>1,566,509</u>	<u>5,136,509</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Governmental Activities (Continued):

Bonds Payable (Continued):

General Obligation Public Improvement Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2007 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>1,035,000</u>	<u>45,023</u>	<u>1,080,023</u>
	\$ <u>1,035,000</u>	<u>45,023</u>	<u>1,080,023</u>

General Obligation School and Road Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2008 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 920,000	91,208	1,011,208
2008	<u>975,000</u>	<u>51,188</u>	<u>1,026,188</u>
	\$ <u>1,895,000</u>	<u>142,396</u>	<u>2,037,396</u>

General Obligation Public Improvement Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2016 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 600,000	364,308	964,308
2008	610,000	338,208	948,208
2009	665,000	306,183	971,183
2010	690,000	271,270	961,270
2011	725,000	235,045	960,045
2012-2016	<u>4,155,000</u>	<u>609,285</u>	<u>4,764,285</u>
	\$ <u>7,445,000</u>	<u>2,124,299</u>	<u>9,569,299</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

Public Improvement Bonds, Series III-C-1 issued October 29, 1998 debt service requirements to maturity in 2018 are as follows. The interest rate is depicted at a locked in swap rate of 4.66%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 635,000	316,647	951,647
2008	670,000	287,056	957,056
2009	705,000	255,834	960,834
2010	435,000	222,981	657,981
2011	455,000	202,710	657,710
2012-2016	2,645,000	672,904	3,317,904
2017-2018	<u>1,250,000</u>	<u>88,074</u>	<u>1,338,074</u>
	<u>\$ 6,795,000</u>	<u>2,046,206</u>	<u>8,841,206</u>

Local Government Improvement Bonds-Series IV-B-6 issued January 1, 2000 debt service requirements to maturity in 2020 are as follows. The interest rate is variable, but is depicted at an estimated 6%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 400,000	477,900	877,900
2008	420,000	453,900	873,900
2009	440,000	428,700	868,700
2010	460,000	402,300	862,300
2011	485,000	374,700	859,700
2012-2016	2,845,000	1,404,600	4,249,600
2017-2020	<u>2,915,000</u>	<u>449,400</u>	<u>3,364,400</u>
	<u>\$ 7,965,000</u>	<u>3,991,500</u>	<u>11,956,500</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

General Obligation Bonds, Series 2000, issued July 27, 2000 debt service requirements to maturity in 2008 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 330,000	33,750	363,750
2008	<u>345,000</u>	<u>17,250</u>	<u>362,250</u>
	\$ <u>675,000</u>	<u>51,000</u>	<u>726,000</u>

Local Government Improvement Bonds-Series IV-F-1 issued December 28, 2000 debt service requirements to maturity in 2025 are as follows. The interest rate is variable, but is depicted at an estimated 6%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 285,000	525,300	810,300
2008	300,000	508,200	808,200
2009	315,000	490,200	805,200
2010	330,000	471,300	801,300
2011	350,000	451,500	801,500
2012-2016	2,025,000	1,921,500	3,946,500
2017-2021	2,580,000	1,251,000	3,831,000
2022-2025	<u>2,570,000</u>	<u>395,100</u>	<u>2,965,100</u>
	\$ <u>8,755,000</u>	<u>6,014,100</u>	<u>14,769,100</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

Local Government Improvement Bonds-Series IV-G-2 issued May 8, 2001 debt service requirements to maturity in 2022 are as follows. The interest rate is variable, but is depicted at an estimated 6%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	546,000	546,000
2008	-	546,000	546,000
2009	-	546,000	546,000
2010	480,000	546,000	1,026,000
2011	510,000	517,200	1,027,200
2012-2016	3,055,000	2,088,000	5,143,000
2017-2021	4,085,000	1,054,500	5,139,500
2022	<u>970,000</u>	<u>58,200</u>	<u>1,028,200</u>
	<u>\$ 9,100,000</u>	<u>5,901,900</u>	<u>15,001,900</u>

Tennessee Municipal Bond Fund - Series 2001 issued June 27, 2002 debt service requirements to maturity in 2007 are as follows. The interest rate is variable, but is depicted at an estimated 5%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 205,698	10,285	215,983
	<u>\$ 205,698</u>	<u>10,285</u>	<u>215,983</u>

General Obligation Refunding Bonds issued September 23, 2004 debt service requirements to maturity in 2023 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,071,345	332,080	1,403,425
2008	1,116,192	299,940	1,416,132
2009	1,146,090	266,454	1,412,544
2010	323,895	232,071	555,966
2011	338,844	222,354	561,198
2012-2016	1,893,540	932,939	2,826,479
2017-2021	2,346,993	540,889	2,887,882
2022-2023	<u>1,101,243</u>	<u>72,692</u>	<u>1,173,935</u>
	<u>\$ 9,338,142</u>	<u>2,899,419</u>	<u>12,237,561</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

General Obligation Bonds issued December 29, 2004 debt service requirements to maturity in 2025 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 280,000	281,699	561,699
2008	290,000	273,299	563,299
2009	295,000	264,599	559,599
2010	305,000	255,749	560,749
2011	315,000	246,599	561,599
2012-2016	1,745,000	1,059,375	2,804,375
2017-2021	2,105,000	701,770	2,806,770
2022-2025	<u>2,020,000</u>	<u>224,015</u>	<u>2,244,015</u>
	<u>\$ 7,355,000</u>	<u>3,307,105</u>	<u>10,662,105</u>

Local Government Public Improvement Bonds Series D-6-A issued February 15, 2006 debt service requirements to maturity in 2026 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 100,000	350,000	450,000
2008	225,000	345,000	570,000
2009	225,000	333,750	558,750
2010	250,000	322,500	572,500
2011	250,000	310,000	560,000
2012-2016	1,500,000	1,345,000	2,845,000
2017-2021	1,925,000	928,750	2,853,750
2022-2026	<u>2,525,000</u>	<u>397,500</u>	<u>2,922,500</u>
	<u>\$ 7,000,000</u>	<u>4,332,500</u>	<u>11,332,500</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Governmental Activities (Continued):

Bonds Payable (Continued):

General Obligation Bonds, Series 2006 issued March 30, 2006 debt service requirements to maturity in 2020 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 35,000	243,012	278,012
2008	40,000	241,788	281,788
2009	405,000	240,387	645,387
2010	415,000	226,213	641,213
2011	435,000	209,612	644,612
2012-2016	2,450,000	776,588	3,226,588
2017-2020	<u>2,365,000</u>	<u>244,750</u>	<u>2,609,750</u>
	<u>\$6,145,000</u>	<u>2,182,350</u>	<u>8,327,350</u>

Total annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,148,556	5,975,785	13,124,341
2008	6,335,625	5,779,162	12,114,787
2009	5,626,841	5,620,536	11,247,377
2010	5,198,581	5,515,159	10,713,740
2011	5,534,557	5,506,292	11,040,849
2012-2016	36,909,247	21,070,357	57,979,604
2017-2021	38,701,993	8,146,978	46,848,971
2022-2026	<u>9,186,243</u>	<u>1,147,507</u>	<u>10,333,750</u>
	<u>\$ 114,641,643</u>	<u>58,761,776</u>	<u>173,403,419</u>

Business-Type Activities:

Bonds and notes issued for the acquisition of facilities for the enterprise funds and to be paid from enterprise funds are recorded in the applicable enterprise fund. Bonds of utility districts acquired by the City are reported in the appropriate fund. Maturities on July 1 are considered as maturing on the preceding June 30th.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Notes Payable:

General obligation notes to be repaid from enterprise funds currently outstanding and the funds from which they will be paid are as follows:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2006</u>
<u>Water and Sewer:</u>				
Note Payable - Limestone Cove	03-13-03	450,000	4.65%	\$ 434,793
Note Payable - Watauga Flats	04-20-04	380,000	4.375%	371,066
Note Payable - Limestone Cove	04-20-05	125,000	4.25%	<u>123,427</u>
				<u>\$ 929,286</u>

Notes payable for Limestone Cove issued March 13, 2003 debt service requirements to maturity in 2041 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,169	20,055	25,224
2008	5,413	19,811	25,224
2009	5,669	19,555	25,224
2010	5,937	19,287	25,224
2011	6,219	19,005	25,224
2012-2016	35,809	90,311	126,120
2017-2021	45,131	80,989	126,120
2022-2026	56,882	69,238	126,120
2027-2031	71,696	54,424	126,120
2032-2036	90,373	35,747	126,120
2037-2041	<u>106,495</u>	<u>12,255</u>	<u>118,750</u>
	\$ <u>434,793</u>	<u>440,677</u>	<u>875,470</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Notes Payable (Continued):

Notes payable for Watauga Flats issued April 20, 2004 debt service requirements to maturity in 2042 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,421	16,147	20,568
2008	4,574	15,994	20,568
2009	4,823	15,745	20,568
2010	5,038	15,530	20,568
2011	5,263	15,305	20,568
2012-2016	29,966	72,874	102,840
2017-2021	37,330	65,510	102,840
2022-2026	46,443	56,397	102,840
2027-2031	57,781	45,059	102,840
2032-2036	71,873	30,967	102,840
2037-2041	89,444	13,396	102,840
2042	<u>14,110</u>	<u>244</u>	<u>14,354</u>
	<u>\$ 371,066</u>	<u>363,168</u>	<u>734,234</u>

Notes payable for Limestone Cove issued April 20, 2005 debt service requirements to maturity in 2043 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,431	5,217	6,648
2008	1,478	5,170	6,648
2009	1,557	5,091	6,648
2010	1,624	5,024	6,648
2011	1,694	4,954	6,648
2012-2016	9,611	23,629	33,240
2017-2021	11,898	21,342	33,240
2022-2026	14,711	18,529	33,240
2027-2031	18,190	15,050	33,240
2032-2036	22,484	10,756	33,240
2037-2041	27,807	5,433	33,240
2042-2043	<u>10,942</u>	<u>420</u>	<u>11,362</u>
	<u>\$ 123,427</u>	<u>120,615</u>	<u>244,042</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Notes Payable (Continued):

Total annual debt service requirements to maturity for business-type activities notes payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 11,021	41,419	52,440
2008	11,465	40,975	52,440
2009	12,049	40,391	52,440
2010	12,599	39,841	52,440
2011	13,176	39,264	52,440
2012-2016	75,386	186,814	262,200
2017-2021	94,359	167,841	262,200
2022-2026	118,036	144,164	262,200
2027-2031	147,667	114,533	262,200
2032-2036	184,730	77,470	262,200
2037-2041	223,746	31,084	254,830
2042-2043	<u>25,052</u>	<u>664</u>	<u>25,716</u>
	<u>\$ 929,286</u>	<u>924,460</u>	<u>1,853,746</u>

Bonds Payable:

General Obligation bonds to be repaid from enterprise funds currently outstanding and the funds from which they will be paid are as follows:

	<u>Date</u> <u>Issued</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>June 30, 2006</u>
<u>Water and Sewer:</u>				
Local Government				
Improvement Bonds-				
Series III-C-2	10-01-98	10,200,000	Variable	\$7,485,000
Local Government Public				
Improvement Bonds				
Series-IV-G-3	05-03-01	7,500,000	Variable	7,500,000
Series-D-6-A	02-15-06	30,000,000	5%	<u>30,000,000</u>
				<u>\$ 44,985,000</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (continued):

City Solid Waste:

	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2006</u>
Solid Waste Refunding Bonds	07-15-98	1,640,000	Variable	\$ 1,375,000
Local Government Improvement Bonds Series III-C-3	10-01-98	4,800,000	Variable	2,990,000
Local Government Improvement Bonds Series IV-B-8	01-01-00	1,300,000	Variable	410,000
Tennessee Municipal Bond Fund - Series 2001	06-27-02	118,626	Variable	26,493
General Obligation Refunding Bonds, Series 2004A	09-23-04	39,100	3.00%-4.40%	31,858
				<u>\$ 4,833,351</u>

Regional Solid Waste:

Tennessee Municipal Bond Fund - Series 2001	06-27-02	460,366	Variable	\$ <u>102,808</u>
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Buffalo Valley Golf Course:

Golf Course Revenue and Tax Refunding Bonds	07-15-98	2,465,000	4.10%-4.75%	\$ <u>2,065,000</u>
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Johnson City Building Authority:

Public Facility Refunding Bonds Series 2006A	06-29-06	16,655,000	4.036%-5.219%	\$ <u>16,655,000</u>
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CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Local Government Improvement Bonds-Series III-C-2 issued October 1, 1998 debt service requirements to maturity in 2018 are as follows. The interest rate is depicted at a locked in swap rate of 4.66%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 470,000	348,801	818,801
2008	495,000	326,899	821,899
2009	520,000	303,832	823,832
2010	545,000	279,600	824,600
2011	570,000	254,203	824,203
2012-2016	3,315,000	844,392	4,159,392
2017-2018	<u>1,570,000</u>	<u>110,675</u>	<u>1,680,675</u>
	<u>\$ 7,485,000</u>	<u>2,468,402</u>	<u>9,953,402</u>

Local Government Public Improvement Bonds-Series IV-G-3 issued May 3, 2001 debt service requirements to maturity in 2022 are as follows. The interest rate is variable, but is depicted at 6.00%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	450,000	450,000
2008	-	450,000	450,000
2009	-	450,000	450,000
2010	395,000	450,000	845,000
2011	420,000	426,300	846,300
2012-2016	2,515,000	1,721,400	4,236,400
2017-2021	3,370,000	869,700	4,239,700
2022	<u>800,000</u>	<u>48,000</u>	<u>848,000</u>
	<u>\$ 7,500,000</u>	<u>4,865,400</u>	<u>12,365,400</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Business-Type Activities (Continued):

Bonds Payable (Continued):

Local Government Public Improvement Bonds Series D-6-A issued February 15, 2006 debt service requirements to maturity in 2031 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 375,000	1,500,000	1,875,000
2008	375,000	1,481,250	1,856,250
2009	400,000	1,462,500	1,862,500
2010	725,000	1,442,500	2,167,500
2011	775,000	1,406,250	2,181,250
2012-2016	4,225,000	6,437,500	10,662,500
2017-2021	5,650,000	5,243,750	10,893,750
2022-2026	7,625,000	3,652,500	11,277,500
2027-2031	<u>9,850,000</u>	<u>1,528,750</u>	<u>11,378,750</u>
	<u>\$ 30,000,000</u>	<u>24,155,000</u>	<u>54,155,000</u>

Solid Waste Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2016 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 115,000	67,232	182,232
2008	115,000	62,230	177,230
2009	120,000	56,193	176,193
2010	125,000	49,892	174,892
2011	130,000	43,330	173,330
2012-2016	<u>770,000</u>	<u>113,218</u>	<u>883,218</u>
	<u>\$ 1,375,000</u>	<u>392,095</u>	<u>1,767,095</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Business-Type Activities (Continued):

Bonds Payable (Continued):

Local Government Improvement Bonds Series III-C-3 issued October 1, 1998 debt service requirements to maturity in 2018 are as follows. The interest rate is variable, but is depicted at 6.00%.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 190,000	179,400	369,400
2008	195,000	168,000	363,000
2009	205,000	156,300	361,300
2010	220,000	144,000	364,000
2011	230,000	130,800	360,800
2012-2016	1,325,000	433,800	1,758,800
2017-2018	<u>625,000</u>	<u>56,700</u>	<u>681,700</u>
	<u>\$ 2,990,000</u>	<u>1,269,000</u>	<u>4,259,000</u>

Local Government Improvement Bonds Series IV-B-8 issued January 1, 2000 debt service requirements to maturity in 2020 are as follows. The interest rate is variable, but is depicted at 6.00%.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 20,000	24,600	44,600
2008	20,000	23,400	43,400
2009	25,000	22,200	47,200
2010	25,000	20,700	45,700
2011	25,000	19,200	44,200
2012-2016	145,000	71,700	216,700
2017-2020	<u>150,000</u>	<u>23,100</u>	<u>173,100</u>
	<u>\$ 410,000</u>	<u>204,900</u>	<u>614,900</u>

Tennessee Municipal Bond Fund - Series 2001 issued June 27, 2002 debt service requirements to maturity in 2007 are as follows. The interest rate is variable, but is depicted at 5.00%.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 26,493	1,325	27,818
	<u>\$ 26,493</u>	<u>1,325</u>	<u>27,818</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

General Obligation Refunding Bonds, Series 2004A issued September 23, 2004 debt service requirements to maturity in 2023 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,655	1,133	4,788
2008	3,808	1,023	4,831
2009	3,910	909	4,819
2010	1,105	792	1,897
2011	1,156	759	1,915
2012-2016	6,460	3,183	9,643
2017-2020	8,007	1,846	9,853
2022-2023	<u>3,757</u>	<u>248</u>	<u>4,005</u>
	<u>\$ 31,858</u>	<u>9,893</u>	<u>41,751</u>

Tennessee Municipal Bond Fund - Series 2001 issued June 27, 2002 debt service requirements to maturity in 2007 are as follows. The interest rate is variable, but is depicted at 5.00%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>102,808</u>	<u>5,140</u>	<u>107,948</u>
	<u>\$ 102,808</u>	<u>5,140</u>	<u>107,948</u>

Golf Course Revenue and Tax Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2016 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 165,000	101,048	266,048
2008	175,000	93,870	268,870
2009	180,000	84,682	264,682
2010	190,000	75,233	265,233
2011	200,000	65,257	265,257
2012-2016	<u>1,155,000</u>	<u>169,708</u>	<u>1,324,708</u>
	<u>\$ 2,065,000</u>	<u>589,798</u>	<u>2,654,798</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Public Facility Refunding Bonds, Series 2006A issued June 29, 2006 debt service requirements to maturity in 2023 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 840,000	497,305	1,337,305
2008	615,000	718,436	1,333,436
2009	645,000	692,961	1,337,961
2010	665,000	666,431	1,331,431
2011	700,000	638,801	1,338,801
2012-2016	4,370,000	2,679,107	7,049,107
2017-2021	6,240,000	1,409,570	7,649,570
2022-2023	<u>2,580,000</u>	<u>112,562</u>	<u>2,692,562</u>
	<u>\$16,655,000</u>	<u>7,415,173</u>	<u>24,070,173</u>

Total annual debt service requirements to maturity for business-type activities general obligation bonds are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,307,956	3,175,984	5,483,940
2008	1,993,808	3,325,108	5,318,916
2009	2,098,910	3,229,577	5,328,487
2010	2,891,105	3,129,148	6,020,253
2011	3,051,156	2,984,900	6,036,056
2012-2016	17,826,460	12,474,008	30,300,468
2017-2021	17,613,007	7,715,341	25,328,348
2022-2026	11,008,757	3,813,310	14,822,067
2027-2031	<u>9,850,000</u>	<u>1,528,750</u>	<u>11,378,750</u>
	<u>\$ 68,641,159</u>	<u>41,376,126</u>	<u>110,017,285</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Electric System Revenue Anticipation Notes, Series 2005 were issued September 23, 2005 and will mature on September 1, 2010 at a 3.5% interest rate. The notes were issued under TCA Section 7-34-111 and long-term obligations must be issued to retire the notes. These are the only revenue notes and the total annual debt service requirements are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	420,000	420,000
2008	-	420,000	420,000
2009	-	420,000	420,000
2010	-	420,000	420,000
2011	<u>12,000,000</u>	<u>420,000</u>	<u>12,420,000</u>
	<u>\$ 12,000,000</u>	<u>2,100,000</u>	<u>14,100,000</u>

Revenue bonds to be repaid from enterprise funds currently outstanding and the funds from which they will be paid are as follows:

	<u>Date</u> <u>Issued</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Rate</u>	<u>Outstanding</u> <u>June 30, 2006</u>
<u>Water and Sewer:</u>				
North Johnson City Utility District	12-01-53	275,000	3.00%	\$ 10,000
Water and Sewer Revenue and				
Tax Refunding Bonds	07-15-98	19,325,000	4.10%-4.75%	13,145,000
Local Government				
Improvement Bonds-				
Series IV-B-7	01-01-00	3,200,000	Variable	2,625,000
Water and Sewer				
Revenue and Tax Bonds	07-27-00	2,300,000	5.000%-5.375%	195,000
Water and Sewer Revenue and Tax				
Series 2004A Refunding Bonds	09-23-04	3,210,000	3.00%-4.40%	2,085,000
Water and Sewer Revenue and Tax				
Series 2006 Refunding Bonds	03-30-06	1,795,000	3.50%-4.125%	<u>1,770,000</u>
				<u>\$ 19,830,000</u>
<u>City Solid Waste:</u>				
Solid Waste Revenue and				
Tax Bonds	05-01-94	2,000,000	5.30%-5.25%	<u>\$ 540,000</u>
<u>Johnson City Power Board:</u>				
Revenue Bonds Series	12-01-96	10,000,000	4.00-5.70%	\$ 6,770,000
Revenue Bonds Series	10-01-97	20,000,000	4.10-5.15%	<u>16,420,000</u>
				<u>\$ 23,190,000</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

F. **Long-Term Debt (Continued):**

Business-Type Activities (Continued):

Bonds Payable (Continued):

North Johnson City Utility District Bonds issued December 1, 1953 debt service requirements to maturity in 2007 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>10,000</u>	<u>225</u>	<u>10,225</u>
	\$ <u>10,000</u>	<u>225</u>	<u>10,225</u>

Water and Sewer Revenue and Tax Refunding Bonds issued July 15, 1998 debt service requirements to maturity in 2016 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,100,000	644,158	1,744,158
2008	1,155,000	596,308	1,751,308
2009	1,210,000	535,670	1,745,670
2010	1,270,000	472,145	1,742,145
2011	1,340,000	405,470	1,745,470
2012-2016	<u>7,070,000</u>	<u>976,847</u>	<u>8,046,847</u>
	<u>\$13,145,000</u>	<u>3,630,598</u>	<u>16,775,598</u>

Local Government Improvement Bonds-Series IV-B-7 issued January 1, 2000 debt service requirements to maturity in 2020 are as follows. The interest rate is variable, but is depicted at 6.00%.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 130,000	157,500	287,500
2008	140,000	149,700	289,700
2009	145,000	141,300	286,300
2010	150,000	132,600	282,600
2011	160,000	123,600	283,600
2012-2016	940,000	463,500	1,403,500
2017-2020	<u>960,000</u>	<u>147,900</u>	<u>1,107,900</u>
	<u>\$ 2,625,000</u>	<u>1,316,100</u>	<u>3,941,100</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Water and Sewer Revenue and Tax Bonds issued July 27, 2000 debt service requirements to maturity in 2008 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 95,000	9,750	104,750
2008	<u>100,000</u>	<u>5,000</u>	<u>105,000</u>
	<u>\$ 195,000</u>	<u>14,750</u>	<u>209,750</u>

Water and Sewer Revenue and Tax Series 2004A Refunding Bonds, issued September 23, 2004 debt service requirements to maturity in 2009 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 680,000	55,675	735,675
2008	695,000	38,675	733,675
2009	<u>710,000</u>	<u>21,300</u>	<u>731,300</u>
	<u>\$ 2,085,000</u>	<u>115,650</u>	<u>2,200,650</u>

Water and Sewer Revenue and Tax Series 2006 Refunding Bonds issued March 30, 2006 debt service requirements to maturity in 2020 are as follows.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,000	70,000	80,000
2008	10,000	69,650	79,650
2009	115,000	69,300	184,300
2010	120,000	65,275	185,275
2011	125,000	60,475	185,475
2012-2016	710,000	223,825	933,825
2017-2020	<u>680,000</u>	<u>70,300</u>	<u>750,300</u>
	<u>\$ 1,770,000</u>	<u>628,825</u>	<u>2,398,825</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Solid Waste Revenue and Tax Bonds issued May 1, 1994 debt service requirements to maturity in 2009 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 170,000	31,060	201,060
2008	180,000	21,370	201,370
2009	<u>190,000</u>	<u>11,020</u>	<u>201,020</u>
	<u>\$ 540,000</u>	<u>63,450</u>	<u>603,450</u>

Power Board Revenue Bonds issued December 1, 1996 debt service requirements to maturity in 2017 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 465,000	373,583	838,583
2008	490,000	349,868	839,868
2009	515,000	324,388	839,388
2010	545,000	297,093	842,093
2011	575,000	267,663	842,663
2012 – 2016	3,385,000	822,003	4,207,003
2017	<u>795,000</u>	<u>45,315</u>	<u>840,315</u>
	<u>\$ 6,770,000</u>	<u>2,479,913</u>	<u>9,249,913</u>

Power Board Revenue Bonds issued October 1, 1997 debt service requirements to maturity in 2023 are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 630,000	845,106	1,475,106
2008	665,000	807,306	1,472,306
2009	695,000	775,719	1,470,719
2010	730,000	740,969	1,470,969
2011	770,000	704,469	1,474,469
2012 – 2016	4,460,000	2,890,743	7,350,743
2017 - 2021	5,740,000	1,619,158	7,359,158
2022-2023	<u>2,730,000</u>	<u>212,695</u>	<u>2,942,695</u>
	<u>\$16,420,000</u>	<u>8,596,165</u>	<u>25,016,165</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Total annual debt service requirements to maturity for business-type activities revenue bonds are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,290,000	2,187,057	5,477,057
2008	3,435,000	2,037,877	5,472,877
2009	3,580,000	1,878,697	5,458,697
2010	2,815,000	1,708,082	4,523,082
2011	2,970,000	1,561,677	4,531,677
2012-2016	16,565,000	5,376,918	21,941,918
2017-2021	8,175,000	1,882,673	10,057,673
2022-2023	2,730,000	212,695	2,942,695
	<u>\$ 43,560,000</u>	<u>16,845,676</u>	<u>60,405,676</u>

Advance Refunding:

On March 30, 2006, the City refunded and defeased in substance its outstanding General Obligation Refunding and Improvement Bonds, Series 2000, dated July 27, 2000, inclusive totaling \$5,890,000, carrying interest rates averaging 5.817%, with new General Obligation Refunding Bonds, Series 2006 of \$6,230,000. These bonds were issued with interest rates of 3.50%-4.125%.

All issuance costs of the transaction of \$102,562 were paid from bond proceeds. There was a reoffering premium of \$15,425 received. The net proceeds of \$6,142,863 were deposited in escrow to provide for payment of the defeased debt. The advance refunding resulted in a difference between the reacquisition prices and the net carrying amount of the old debt of \$329,438. This difference, reported in the government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2020 using the straight-line method, which does not differ significantly from the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next fourteen years by \$442,181 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$342,601.

Also, on March 30, 2006, the City advance refunded its outstanding Water and Sewer Revenue and Tax Refunding and Improvement Bonds, Series 2000, dated July 27, 2000, inclusive. These bonds total \$1,690,000 and carrying interest rates of 5.000%-5.375% were defeased and new Water and Sewer Revenue and Tax Refunding Bonds Series 2006 were issued at interest rates of

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Business-Type Activities (Continued):

Bonds Payable (Continued):

Advance Refunding (continued):

3.5-4.125%. All issuance costs of \$33,174 were paid from bond proceeds. There was a reoffering premium of \$711 received. The net proceeds of \$1,762,537 were deposited in escrow to provide for payment of the defeased debt. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$104,140. This difference, reported in the government-wide financial statements as a deduction from bonds payable is being charged to operations through the year 2020 using the straight-line method which does not differ significantly from the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next fourteen years by \$115,456 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$93,481.

Advance Refunding-Prior Years:

The City defeased certain general obligation and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2006, the following bonds outstanding are considered defeased:

<u>Issue</u>	<u>Year Refunded</u>	<u>Balance June 30, 2006</u>
School Sales Tax Revenue And Unlimited Tax Bonds	1997	11,752,379
Water and Sewer Revenue and Tax Bonds	1998	12,845,000
General Obligation Public Improvement Bonds	1998	15,105,000
General Obligation Refunding and Improvement Bonds, Series 1993, 1994A and 1997	2005	9,295,000
Water and Sewer Revenue and Tax Refunding and Improvement Bonds, Series 1993 and 1994	2005	2,075,000

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Capital Leases

During the fiscal year ended June 30, 2004, the City entered into a lease agreement for financing the acquisition of an IBM Computer System with a down payment of \$107,058. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Computer Equipment	\$ 403,802
Less: Accumulated Depreciation	<u>286,026</u>
Total	\$ <u>117,776</u>

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2006, are as follows:

Year Ending	
<u>June 30</u>	
2007	\$ <u>107,060</u>
Total Minimum Lease Payments	107,060
Less: Amount Representing Interest	<u>(4,185)</u>
Present Value of Minimum Lease Payments	\$ <u>102,875</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

F. Long-Term Debt (Continued):

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due within one year
Governmental activities:						
General Obligation Bonds	\$ 114,752,367	13,230,000	(13,340,723)	-	114,641,644	7,148,557
Less deferred amounts for refunding	(37,571)	(329,438)	13,507	-	(353,502)	-
Notes Payable-Land	897,241	-	(207,977)	-	689,264	218,506
Capital Outlay Note	620,000	-	(80,000)	-	540,000	83,000
Capital Leases	201,735	-	(98,860)	-	102,875	102,875
Compensated Absences	1,851,209	1,601,293	(1,268,071)	-	2,184,431	1,496,327
Governmental activity Long-term liabilities	<u>\$ 118,284,981</u>	<u>14,501,855</u>	<u>(14,982,124)</u>	<u>-</u>	<u>117,804,712</u>	<u>9,049,265</u>
Business-type activities:						
Bonds Payable:						
General Obligation Bonds	\$ 39,309,436	46,655,000	(17,323,277)	-	68,641,159	2,307,956
State of TN-public health	314,702	-	(314,702)	-	-	-
Revenue Bonds	47,220,000	1,950,000	(5,610,000)	-	43,560,000	3,290,000
Less deferred amounts for refunding	(896,620)	(742,289)	120,666	-	(1,518,243)	-
Total bonds payable	<u>85,947,518</u>	<u>47,862,711</u>	<u>(23,127,313)</u>	<u>-</u>	<u>110,682,916</u>	<u>5,597,956</u>
Notes Payable						
General Obligation	939,804	-	(10,518)	-	929,286	11,021
Revenue Anticipation Notes	-	12,000,000	-	-	12,000,000	-
Compensated Absences	2,151,098	454,094	(335,793)	-	2,269,399	620,797
Landfill Postclosure Cost	710,220	-	(37,380)	-	672,840	37,380
Business-type activity Long-term liabilities	<u>\$ 89,748,640</u>	<u>60,316,805</u>	<u>(23,511,004)</u>	<u>-</u>	<u>126,554,441</u>	<u>6,267,154</u>

For the Governmental activities, compensated absences are generally liquidated by the General Fund, General Purpose School Fund and certain Special Revenue Funds (Freedom Hall Civic Center, School Food Service Fund, Transportation Planning Fund, Police Grant Fund and Community Development).

NOTE: Interest rates on variable interest rate bonds are commensurate with local prevailing rates as determined by the Tennessee Local Development Authority on an annual basis.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. DETAILED NOTES ON ALL FUNDS (CONTINUED):

G. Closure and Post Closure Costs

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions for thirty years after closure. The Bowser Ridge Landfill closed during the fiscal year ended June 30, 1994 and the Iris Glen Landfill began receiving solid waste during the fiscal year ended June 30, 1995. The deferred postclosure costs recorded are for the Bowser Ridge Landfill. Since the Landfill closed during the year that *Governmental Accounting Standards Board Statement Number 18*, which requires the recording of these costs, went into effect, no investments have been set aside to cover these costs. All costs will be funded by the City government. The City of Johnson City has filed financial assurance with the State of Tennessee Department of Environment and Conservation for the Bowser Ridge Landfill in the form of a contract in lieu of performance bond in the amount of \$ 975,884, for closure and postclosure costs. An estimate of the required amounts was made by an environmental auditor for the future years, with consideration given to inflation and other potential changes. A separate operation and maintenance contract with Waste Management Systems, Inc. is in effect for the Iris Glen Landfill. The contract states that Waste Management is responsible for the closure and postclosure costs for Iris Glen. During the year ended June 30, 2006, the City paid Waste Management, \$2,025,664 for Landfill Services.

H. Segment Information

A segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or another stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. Summary financial information as of June 30, 2006, for segments Buffalo Valley Golf Course and Regional Solid Waste (see Note 1.C. for description of services provided) is presented below.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

H. **Segment Information (Continued)**

CONDENSED STATEMENT OF NET ASSETS

	Golf Courses	Regional Solid Waste	Total
<u>ASSETS:</u>			
Current Assets	\$ 146,452	1,602,983	1,749,435
Capital Assets (Net)	2,686,324	818,910	3,505,234
Other Assets (Net)	19,489	-	19,489
Total Assets	<u>2,852,265</u>	<u>2,421,893</u>	<u>5,274,158</u>
<u>LIABILITIES:</u>			
Current Liabilities	2,083,913	172,652	2,256,565
Non-Current Liabilities	1,843,680	102,737	1,946,417
Total Liabilities	<u>3,927,593</u>	<u>275,389</u>	<u>4,202,982</u>
<u>NET ASSETS:</u>			
Invested in Capital Assets, Net of Related Debt	721,278	716,102	1,437,380
Unrestricted	(1,796,606)	1,430,402	(366,204)
Total Net Assets	<u>\$ (1,075,328)</u>	<u>2,146,504</u>	<u>1,071,176</u>

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

4. **DETAILED NOTES ON ALL FUNDS (CONTINUED):**

H. **Segment Information (continued)**

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Golf Courses	Regional Solid Waste	Total
Operating Revenues (Expenses):			
Charges for Services (Net)	\$ 990,528	2,001,125	2,991,653
Other Revenue	1,220	-	1,220
Depreciation and Amortization	(104,131)	(121,747)	(225,878)
Other Operating Expenses	(1,084,012)	(1,486,603)	(2,570,615)
Operating Income (Loss)	(196,395)	392,775	196,380
Nonoperating Revenues (Expenses):			
Investment Income	-	74,956	74,956
Interest Expense and Commissions	(203,854)	(6,846)	(210,700)
Amortization	(1,949)	-	(1,949)
Gain (Loss) on Sale of Capital Assets	-	-	-
Operating Transfers	325,000	(134,000)	191,000
Change in Net Assets	(77,198)	326,885	249,687
Beginning Net Assets	(998,130)	1,819,619	821,489
Ending Net Assets	\$ (1,075,328)	2,146,504	1,071,176

CONDENSED STATEMENT OF CASH FLOWS

	Golf Courses	Regional Solid Waste	Total
Net Cash Provided by (Used for):			
Operating Activities	\$ (67,336)	521,787	454,451
Noncapital Financing Activities	440,136	(134,000)	306,136
Capital and Related Financing Activities	(372,800)	(291,388)	(664,188)
Investing Activities	-	74,957	74,957
Net Increase (Decrease)	-	171,356	171,356
Beginning Cash and Cash Equivalents	1,170	1,389,255	1,390,425
Ending Cash and Cash Equivalents	\$ 1,170	1,560,611	1,561,781

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION:

A. Risk management

The City carries insurance coverage through the Tennessee Municipal League (TML) Risk Management Pool for general liability, automobile coverage, and errors and omission coverage. The City also carries auto physical damage coverage with the TML Risk Management Pool. There was no reduction in insurance coverage from the prior year and the City has not had any settlements in the last three years which were not covered by insurance. The City participates in a self-insured retention plan through TML for the liability program. All other insurance programs written through TML are provided through conventional insurance coverage. Although TML is a risk management pool and the policy contains an assessment clause, no assessment has been levied during the time the City has participated in this program. With the TML coverage, the City has an annual aggregate limit of \$600,000 for liability retention plan. As of June 30, 2006, the general liability program had \$121,908 for the City in claims incurred during the fiscal year but not yet settled. These amounts are not recorded in the financial statements until settlement is made. For the July 1, 2005 to July 1, 2006 policy period, the City received a dividend of \$23,525 from TML.

The City carried workers' compensation coverage through the Tennessee Municipal League (TML) Risk Management Pool prior to October 15, 2002, with an aggregate limit for the period of 7/1/02-10/15/02 of \$600,000. After October 15, 2002, the City provided workers' compensation coverage through a self-funded plan. The City carries stop-loss insurance with an individual specific amount of \$500,000 and an aggregate limit of 115% of expected claims. The total paid out for workers' compensation during 2005-2006 was \$1,004,505 for the City and \$108,194 for the Schools. These totals include payments for claims from injuries incurred in previous years. A reconciliation of claims for the year ended June 30, 2006 and 2005 are as follows:

	<u>June 30, 2006</u>			<u>June 30, 2005</u>	<u>Variance</u>
	<u>City</u>	<u>Schools</u>	<u>Total</u>		
Claims Incurred	\$ 430,949	\$110,313	\$ 541,262	\$ 326,524	\$ 214,738
Claims Paid	<u>\$ 267,165</u>	<u>\$ 50,782</u>	<u>\$ 317,947</u>	<u>\$ 216,249</u>	<u>\$ 101,698</u>
Claims, Ending	<u>\$ 163,784</u>	<u>\$ 59,531</u>	<u>\$ 223,315</u>	<u>\$ 110,275</u>	<u>\$ 113,040</u>

The above represent current year liabilities and are reflected in the Internal Service Funds. Prior year amounts have been reflected as a liability in the Internal Service Funds for a total liability of \$432,000.

In addition to the above insurance, the City provides medical insurance to employees as well as post employment health care benefits through a partially self-funded health insurance plan. Participants in the plan pay premiums as determined by the City to offset a portion of the cost of the plan. The City carries stop-loss insurance with an individual specific limit of \$150,000 and an aggregate limit of 120% of expected claims. A reconciliation of claims for the year ended June 30, 2006 and 2005 are as follows:

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

A. Risk management (continued)

	<u>June 30, 2006</u>			<u>June 30, 2005</u>	<u>Variance</u>
	<u>City</u>	<u>Schools</u>	<u>Total</u>		
Claims Accrued, Beginning	\$ 305,818	216,778	522,596	627,316	(104,720)
Claims Incurred	5,223,050	4,578,284	9,801,334	7,427,540	2,373,794
Claims Paid	<u>5,155,159</u>	<u>4,469,630</u>	<u>9,624,789</u>	<u>8,577,452</u>	<u>1,047,337</u>
Claims Accrued, Ending	<u>\$ 373,709</u>	<u>325,432</u>	<u>699,141</u>	<u>627,316</u>	<u>1,221,737</u>

The above liabilities are reflected in the Internal Service Funds.

The Power Board is self-insured for certain perils. The self-insurance program is not accounted for in a separate fund.

Since July 1, 1986, the Power Board has been self-insured for the general liability, comprehensive general automobile liability, fire and casualty, and errors and omissions coverage. There has been one claim in the amount of \$94,750 paid from the fund, which was originally established at \$1,000,000 and has accumulated to \$2,030,952 at June 30, 2006. The Power Board has workman's compensation and employee group health insurance with outside companies.

B. Prior Period Adjustments

Government Wide:

Prior Period Adjustment - Capital Assets \$ 1,374,148

Prior Period Adjustment - Capital Assets, Component Units \$ 78,751

A prior period adjustment of \$1,374,148 was recorded at the government-wide level. \$1,163,964 is to adjust for construction of infrastructure that does not meet the definition of a capital asset as defined by the Governmental Accounting Standards Board. \$210,184 is to adjust for land that was sold in a prior period.

A prior period adjustment was recorded in the Public Library, a component unit of the City, for a change in capitalization Policy.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

C. Contingencies

The Johnson City School System questioned the division of the local option sales tax revenue between them and the Washington County, Tennessee School System for years prior to July 1, 1991. A final agreement was reached in October 1994, and the County will repay the City at \$75,000 per year over a fifteen (15) year period. The remaining amount of the settlement has been recorded on the General Fund as a receivable and deferred revenue at both the government-wide and fund levels.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

The City has entered into several construction contracts in the various funds, which were not completed at year end. The larger of these are for road construction, water and sewer lines, power lines and a parks and recreation center. These amounts will be paid with bonded debt.

The City entered a lease agreement with the Johnson City Public Building Authority (PBA), an enterprise fund of the City, on December 15, 1997 to lease a facility known as the Continuing Education Center. The lease expires in 2023 in connection with the final payments on the PBA's bond issues. The annual rent due is the amount necessary to pay the maturing principal and interest due on the bond issues and any other expense or debt of the PBA that remains unpaid during the fiscal year. During the year ended June 30, 2006, the City paid \$1,352,925 to the PBA to lease the Continuing Education Center.

D. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are in custodial accounts and are not subject to the claims of the City's general creditors and are not reflected in funds of the City.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

E. Post-employment health care benefits

City of Johnson City:

In 1984 the City Commission passed a resolution which offers post-employment health care benefits to all employees who retire from the City after 20 years service until their 65th birthday. The quarterly charge for employees is \$330 for individual and \$705 for family. There are 63 City employees covered by this arrangement. Employees who attain age 65 and retire after 40 years of service are provided health care benefits at no cost for life. At present, one City employee meets the eligibility requirements. The City reimburses 80% or 90%, depending upon the plan chosen, of validated claims for medical and hospitalization after a deductible of \$350 or \$275, depending on the Plan chosen. During the fiscal year ended June 30, 2006, premiums of \$149,645 were collected for City employees.

Johnson City Schools:

The Johnson City Schools have two arrangements for post-employment health care benefits. If the school employee retires with full benefits (30 years or age 60), has 10 years of service with the Johnson City Schools and has carried insurance for the past 5 consecutive years, then the quarterly charge is \$0 for individual and \$291.50 for family. If the school employee does not retire with full benefits but has 20 years of service with the Johnson City Schools and has carried insurance for the past 5 consecutive years, then the quarterly charge is \$330 for individual and \$705 for family. There are approximately 102 School employees participating in the post-employment health care benefit arrangements. Employees who attain age 65 and retire after 40 years of service are provided health care benefits at no cost for life. At present, one School employees meet the eligibility requirements. The City reimburses 80% or 90%, depending upon the plan chosen, of validated claims for medical and hospitalization after a deductible of \$350 or \$275, depending on the Plan chosen. During the year ended June 30, 2006, premiums of \$51,171 were collected for school employees.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan

CITY OF JOHNSON CITY:

Plan Description

Employees of Johnson City are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34 - 37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Johnson City participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Johnson City has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Johnson City is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2006 was 14.94% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Johnson City is established and may be amended by the TCRS Board of Trustees.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan (continued)

CITY OF JOHNSON CITY (CONTINUED):

Annual Pension Cost

For the year ending June 30, 2006, Johnson City's annual pension cost of \$4,962,046 to TCRS was equal to Johnson City's required and actual contributions. The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Johnson City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2006	\$ 4,962,046	100%	\$ 0
June 30, 2005	4,749,969	100%	0
June 30, 2004	3,773,434	100%	0

Required Supplementary Information

Schedule of Funding Progress For Johnson City, 80020

(Dollar Amounts in Thousands)

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
		(AAL)				
Actuarial	Actuarial	Actuarial	(UAAL)	Funded	Covered	UAAL as a %
Valuation	Value of	Accrued	Unfunded	Ratio	Payroll	of Covered
<u>Date</u>	<u>Assets</u>	<u>Liability</u>	<u>AAL</u>			<u>Payroll</u>
July 1, 2005	\$ 103,948	114,847	10,899	90.51%	31,396	34.71%
July 1, 2003	93,477	105,760	12,283	88.39%	29,601	41.50%
July 1, 2001	85,662	99,393	13,731	86.19%	30,839	44.52%

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan (continued)

JOHNSON CITY SCHOOLS:

Plan Description

The Johnson City Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHPEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of the footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Johnson City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2006 was 5.50% of annual covered payroll. The employer contribution requirement for Johnson City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2006, 2005, and 2004 were, \$1,394,501, \$1,328,269, and \$769,570, respectively, equal to the required contributions for each year.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan (continued)

JOHNSON CITY POWER BOARD:

Plan Description

Employees of the Johnson City Power Board are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. Reduced retirement benefits are available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in a state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Johnson City Power Board participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes basic financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System; 10th Floor Andrew Jackson Building; Nashville, TN 37243-0230, or can be accessed at www.treasury.state.tn.us. Copies of the footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan (continued)

JOHNSON CITY POWER BOARD (CONTINUED):

Funding Policy

The Johnson City Power Board requires employees to contribute 5.0 percent of earnable compensation.

The Johnson City Power Board is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006 was 11.88% of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirements for the Johnson City Power Board are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, the Johnson City Power Board's annual pension cost of \$1,034,737 to TCRS was equal to the Johnson City Power Board's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in Social Security wage base, and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The Johnson City Power Board's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2006	\$ 1,034,737	100%	\$ 0
June 30, 2005	926,477	100%	0
June 30, 2004	701,024	100%	0

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

F. Pension Plan (continued)

JOHNSON CITY POWER BOARD (CONTINUED):

Required Supplementary Information

Schedule of Funding Progress for Johnson City Power Board, 80022

(Dollar Amounts in Thousands)

	(a)	(b)	(b) – (a)	(a/b)	(c)	((b-a)/c)
		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2005	\$ 24,498	28,313	3,815	86.53%	7,830	48.72%
July 1, 2003	22,514	26,813	4,299	83.97%	7,560	56.87%
July 1, 2001	20,902	25,457	4,555	82.11%	6,427	70.87%

G. Joint Ventures

The Washington County – Johnson City Animal Control Center (ACC) is an animal shelter jointly owned by Johnson City and Washington County, Tennessee. Johnson City has control over budget and financing of the joint venture only to the extent of representation by the board members appointed and is responsible for funding 50% of any deficits from operations. Johnson City contributed \$114,048 to the operations during the year ended June 30, 2006.

The Washington Co. – Johnson City EMS, Inc. (EMS) receives revenue from Washington County and Johnson City, as well as patient billings. Johnson City contributed \$467,333 to the operations during the year ended June 30, 2005. As of the date of this report, audited financial statements were not completed for June 30, 2006; therefore the numbers presented herein are as of June 30, 2005.

Johnson City is responsible for funding at least 30% of operations of the Johnson City/Jonesborough/Washington County Economic Development Board, Inc. (EDB). Johnson City contributed \$117,843 and the Johnson City Power Board contributed \$81,187 to the operations during the year ended June 30, 2006.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

G. Joint Ventures (continued)

The Tri-Cities Airport (**TCA**) is jointly administered by Cities of Johnson City and Bristol, Tennessee, Bristol, Virginia and Washington and Sullivan Counties, Tennessee. The City of Johnson City contributed 20 percent of the start-up costs of the Airport in 1943 and has made no further contributions. The City is represented by three of the twelve commissioners. A separate enterprise fund is maintained for the Airport and the administrators do not record any balances for the Airport.

The Johnson City Athletic Club (**JCAC**) receives revenue from the City of Johnson City, the Johnson City Housing Authority, interest income and private donations. Both the City and JCHA have agreed to donate \$45,000 annually to the Club for its operations. The City has advisory authority with regard to operations including recommendations of annual and capital budgets of the joint venture only to the extent of representation by the board members appointed. The Club is responsible for its debt and is entitled to surpluses. The City of Johnson City contributed \$43,000 for operations during the year ended June 30, 2006.

The Tri-County Industrial Park is a joint venture between the City of Johnson City, Tennessee, the City of Bristol, Tennessee and Sullivan County, Tennessee. The purpose is to promote regional economic development in the quad-city area. The joint venture owns vacant parcels of land used for industrial and economic development. The City of Johnson City holds a 25% interest in the proceeds from all sales of vacant lots. During the fiscal year ended June 30, 2006, the City received \$0 from vacant lot sales. Financial statements are not prepared for the Tri-County Industrial Park.

Completed financial statements for each of the individual joint ventures (excluding the Tri-County Industrial Park) may be obtained at the administrative offices of:

Animal Control Center 525 Sells Avenue Johnson City, TN 37601	Tri-Cities Airport Commission P.O. Box 1055 Blountville, TN 37617	Johnson City Athletic Club P.O. Box 59 Johnson City, TN 37605
Emergency Medical Services 296 Wesley Street Johnson City, TN 37601	Economic Development Board 603 East Market Street Johnson City, TN 37601	

Audited information as of June 30, 2006 is presented below for the following organizations except for EMS which is presented for the year ended June 30, 2005. The information does not include the Tri-County Industrial Park. All are presented on the accrual basis.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

5. OTHER INFORMATION (CONTINUED):

G. Joint Ventures (continued)

	ACC	EMS	EDB	TCA	JCAC
Operating Revenues	\$ 105,246	6,379,979	334,030	5,985,500	95,878
Operating Expenses	(411,056)	(5,626,480)	(324,753)	(5,484,486)	(79,729)
Depreciation	(16,216)	(259,702)	-	(2,381,018)	-
Amortization	-	-	-	(13,501)	-
Other Income (Expense)	302,669	(11,751)	19,621	619,715	2,021
Capital Contributions	-	-	-	7,646,827	-
Net Income (Loss) Transferred to Net Assets	(19,357)	482,046	28,898	6,373,037	18,170
Net Assets, Beginning	407,928	1,429,425	862,069	39,378,161	91,063
Prior Period Adjustments	-	153,012	-	-	-
Net Assets, Ending	<u>\$ 388,571</u>	<u>2,064,483</u>	<u>890,967</u>	<u>45,751,198</u>	<u>109,233</u>
Total Assets	\$ 434,827	3,194,955	894,828	57,665,753	110,003
Total Liabilities	46,256	1,130,472	3,861	11,914,555	770
Total Net Assets	<u>\$ 388,571</u>	<u>2,064,483</u>	<u>890,967</u>	<u>45,751,198</u>	<u>109,233</u>

H. Subsequent Event

The Internal Revenue Service ("IRS") challenged the tax-exempt status of the City's 1997 School Refunding Bonds and had required the City of Johnson City of Tennessee ("City") to reimburse what was considered to be unpaid taxes. The City and the IRS have entered in to a closing agreement ("Closing Agreement") on November 30, 2006 pursuant to which interest on the City's \$29,477,803, original aggregate principal amount, Schools Sales Tax Revenue and Tax Refunding Bonds, Series 1997 ("School Bonds") and \$3,815,000, original aggregate principal amount, General Obligation Public Improvement Refunding Bonds, Series 1997 ("Public Improvement Bonds", and together with the School Bonds, the "Bonds") will remain excludable from the gross income of the holders thereof for federal income tax purposes. The Closing Agreement provides that holders of the Bonds are not required to include any interest on the Bonds in gross income for federal income tax purposes and no income will be recognized by any holder of the Bonds for federal income tax purposes as a result of the Closing Agreement or any payments made pursuant to the Closing Agreement. The Closing Agreement also provides that the City shall redeem the School Bonds maturing on May 1, 2014, May 1, 2015 and May 1, 2021 and all of the outstanding Public Improvement Bonds on or after May 1, 2007. The total payment required by the City of \$215,000 has been recorded as a liability in the General Fund.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS:

A. Johnson City Public Library

1. Summary of Significant Accounting Policies:

The Johnson City Public Library receives support from the City of Johnson City, Tennessee and from Washington County, Tennessee. The Library is operated by the Library Board and was incorporated in September 1989. The Library is a non-profit organization under IRC Section 501(c) (3), but operates as a component unit of the City of Johnson City, Tennessee. As a component unit of a Municipality, the Library uses governmental fund accounting and does not follow *Financial Accounting Standards Statements No. 116 and 117*.

a. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the Johnson City Public Library. *Governmental activities*, which normally are supported by intergovernmental revenues and taxes are reported separately. The Library has no *business type* activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers, who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items which do not meet this definition are reported as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Library established an endowment fund during the fiscal year ended June 30, 2000. The fund is currently being managed by the East Tennessee Foundation, a separate 501(c)(3), which operates as a service organization and manages the investment for the Johnson City Public Library.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. Johnson City Public Library (continued)

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest and reimbursements associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The government reports the following major governmental funds:

The *general fund* is the Library's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *permanent fund* is an endowment fund which was established to allow a separate 501(c)(3) to manage and invest funds on behalf of the Library.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use unrestricted resources first, and then restricted resources as they are needed.

c. Cash and Investments

Cash includes deposits with financial institutions in checking accounts and petty cash. Cash is reported at carrying value, which reasonably estimates fair value. Investments are recorded at market value in accordance with GASB Statement No. 31 (See Note 2).

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. Johnson City Public Library (continued)

d. Capital Investments

Capital Assets, which include the book collection, equipment, and furniture, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Library as equipment and furniture with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year and additions to the book collection. The book collection has been viewed as one item. The Library only capitalizes fiction and non-fiction works. Audio visual items and periodicals do not have long useful lives and are not capitalized. The book collection of the Johnson City Public Library is part of the infrastructure of the organization. The initial value of the complement of books was \$1,138,049. Subsequently, additions and replacements will be expensed unless those additions and replacements exceed a significant percentage of the initial complement (amounts over \$100,000).

Equipment and furniture are recorded at historical cost. Donated equipment and furniture items are recorded at estimated fair market value at the date of donation. The book collection value, prior to implementation of GASB 34 in 2002, has been estimated by an average cost per book based upon 2002 expenditures. New additions to the collection amount have been recorded based upon actual costs.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Equipment and furniture are depreciated using the straight line method over the following estimated useful lives:

Computers	3-5 years
Equipment	5 years
Furniture	7 years

The book collection has not been depreciated. Books are viewed as inexhaustible assets that should not be depreciated. The collection has an economic benefit or service potential that provides for extraordinarily long lives. Efforts are usually made to preserve and protect these assets in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

The building of the Library is an asset of the City of Johnson City, Tennessee and is not owned by the Johnson City Public Library.

e. Accumulated Unpaid Vacation and Sick Pay

General policy of the Library does not allow employees to accumulate vacation days in excess of a normal year's accumulation. The amount of liability for accrued vacation pay was determined by computing the total number of hours earned as of June 30, 2006 at the current rate of pay. Sick leave is accumulated at the rate of 3.693 hours per pay period or 96 hours per year.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. **Johnson City Public Library (continued)**

f. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

g. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the Library. All annual appropriations lapse at fiscal year end. Any budget amendments require board approval. The budget was amended during the 2006 fiscal year for the general fund.

h. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue and expenditures. Actual results may differ from these estimates.

2. Deposits and Investments:

The Library has various deposits at banks and a cash investment through the East Tennessee Foundation at June 30, 2006. All deposits are insured by FDIC insurance up to \$100,000. Amounts in excess of \$100,000 are secured by the financial institution through the State Collateral Pool. Various restrictions on deposits and investments, including repurchase agreements, are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS – All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS – State statutes authorize the Organization to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, The Federal National Mortgage Association, The Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; The State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

The Library does not have a policy for interest rate risk or for other credit risk other than pledging securities for amounts in excess of the FDIC coverage.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. Johnson City Public Library (continued)

2. Deposits and Investments:

At June 30, 2006, cash on deposit is held in the following bank:

	<u>Per Bank</u>	<u>Per Books</u>
Bank	\$ <u>132,971</u>	<u>71,314</u>

Investments

The Library established an endowment fund during the fiscal year ended June 30, 2000, by giving the East Tennessee Foundation \$150,000. The Foundation manages and invests the funds of the Library on their behalf. The balance reflected on the governmental funds balance sheet for the Permanent Fund represents the funds currently being invested through the Foundation in several investment alternatives (See Note 1).

The funds held in the endowment are a category 2 risk; uninsured and unregistered, with securities held by the counterparty in the Library's name. These investments do not comply with the requirements of the Tennessee Code Annotated as outlined above under INVESTMENTS. The East Tennessee Foundation's commingled fund was invested with The Investment Fund for Foundations (TIFF) in a balanced portfolio. On June 30, 2006, the asset allocation was 41% in the U.S. Equity Fund, 16.8% in the International Equity Fund, 24.7% in Fixed Income, 10.2% in an Absolute Return Pool and 7.3% in private investment vehicles.

	<u>Cost</u>	<u>Market</u>
Endowment Investment	\$ <u>150,000</u>	<u>178,768</u>

The East Tennessee Foundation is audited and receives an independent auditors' report on their separate financial statements. Complete financial statements of the East Tennessee Foundation may be obtained from their office at: East Tennessee Foundation; 550 W Main Street, Suite 550; Knoxville, TN 37902.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. Johnson City Public Library (continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Book Collection	<u>\$ 1,138,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,138,049</u>
Capital assets, being depreciated:					
Equipment	<u>320,491</u>	<u>12,593</u>	<u>(38,920)</u>	<u>(194,136)</u>	<u>100,028</u>
Furniture	<u>515,013</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,013</u>
Total capital assets, being depreciated	<u>835,504</u>	<u>12,593</u>	<u>(38,920)</u>	<u>(194,136)</u>	<u>615,041</u>
Less accumulated depreciation for:					
Equipment	<u>(161,202)</u>	<u>(40,390)</u>	<u>29,500</u>	<u>115,385</u>	<u>(56,707)</u>
Furniture	<u>(430,693)</u>	<u>(73,574)</u>	<u>-</u>	<u>-</u>	<u>(504,267)</u>
Total accumulated depreciation	<u>(591,895)</u>	<u>(113,964)</u>	<u>29,500</u>	<u>115,385</u>	<u>(560,974)</u>
Total capital assets, being depreciated, net	<u>243,609</u>	<u>(101,371)</u>	<u>(9,420)</u>	<u>(78,751)</u>	<u>54,067</u>
Governmental activities capital assets, net	<u><u>\$ 1,381,658</u></u>	<u><u>(101,371)</u></u>	<u><u>(9,420)</u></u>	<u><u>(78,751)</u></u>	<u><u>1,192,116</u></u>

Adjustments were made to remove capital assets which were below the capitalization threshold which was adopted in October 2005. This adjustment was recorded as a prior period adjustment at the government-wide level.

Depreciation expense of \$113,964 was charged to the general government function in the statement of activities.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. Johnson City Public Library (continued)

4. Budgetary Information:

Certain categories within the general fund were over budget for the year. A list of the categories and the amount overspent based upon the budget is as follows:

<u>Operating</u>	
Capital Outlay	\$ <u>12,594</u>

5. Deferred Compensation Plan:

The Library has an Employee Custodial Fund in accordance with the amended Section 457B of the Internal Revenue Code. The funds are owned by the employees of the Library and cannot be used to satisfy any claims of the creditors of the Library.

The Library also has a 403B plan in which employees may participate through payroll deductions. The Library made matching contributions to the plan totaling \$22,768.

6. Risk Management Activities:

The Library carries insurance coverage for worker's compensation, general liability and contents, and coverage for officers and directors. There have been no significant changes from the previous year in the coverage provided. There have been no claims in the current year or in the previous three years which were not covered by insurance.

7. Grants:

During the fiscal year ended June 30, 2006, the Library received a grant from the earnings in the Permanent Fund held with the East Tennessee Foundation for \$15,000 for replacement of the compressor in the HVAC system. This grant is reflected as a transfer from the Permanent Fund to the General Fund. The Library also received a Library Services Technology Assistance (LSTA) grant from the State of Tennessee for computers in the amount of \$6,500 and recorded \$8,195 as revenue from a LSTA grant which was received in the prior year. A foundation grant totaling \$2,400 was received for the 2006 summer reading program and an additional foundation grant totaling \$1,837 for a special reading program was received.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

A. **Johnson City Public Library (continued)**

8. Commitments:

In August 2004, the Library entered into an operating lease for the lease of a phone system. The lease has an initial term of 60 months with a monthly rental payment of \$740. Total rent paid during fiscal year ended June 30, 2006 was \$8,880. The following is a schedule of future rental payments as identified in the lease agreement:

2007	\$ 8,880
2008	8,880
2009	8,880
2010	<u>2,960</u>
	<u>\$ 29,600</u>

9. Economic Dependency:

The Library has a significant dependence on two other entities. Those entities and their related portion of revenue in the general fund are as follows:

City of Johnson City, Tennessee	83%
Washington County, Tennessee	7%

B. **Johnson City Development Authority**

1. Summary of Significant Accounting Policies:

The Johnson City Development Authority (JCDA) is a component unit of the City of Johnson City, TN. The JCDA's purpose is to facilitate business development within the City of Johnson City. The organization was established by the Johnson City Commission and became operative in February 1990.

a. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the JCDA. *Governmental activities*, which normally are supported by intergovernmental revenues and taxes are reported separately. The JCDA has no *business type* activities.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

B. Johnson City Development Authority (Continued)

a. Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers, who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items which do not meet this definition are reported as *general revenues*.

Separate fund level financial statements are provided for governmental funds. JCDA only has one governmental fund, which is the general fund.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the JCDA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest and reimbursements associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the JCDA.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

B. Johnson City Development Authority (Continued)

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The government reports the following major governmental funds:

The *general fund* is the JCDA's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the JCDA's policy to use restricted resources first, and then unrestricted resources as they are needed.

c. Cash and Deposits

Cash includes deposits with financial institutions in checking and savings accounts and petty cash. Cash is reported at carrying value, which is fair value.

d. Capital Assets

Capital assets, which include office equipment and furniture, are reported in the governmental column in the government-wide financial statements. Equipment and furniture are recorded at historical cost. Donated equipment and furniture items are recorded at estimated fair market value at the date of donation. The organization capitalizes equipment and furniture which costs \$500 or more. Items less than that amount are expensed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Equipment and furniture are depreciated using the straight line method over the following estimated useful lives:

Equipment	5 years
Furniture	7 years

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

B. Johnson City Development Authority (Continued)

e. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated balances are amounts that have been reserved by the Board for specific purposes.

f. Budget

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the JCDA. All annual appropriations lapse at fiscal year end. Any budget amendments require board approval.

g. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Deposits:

The JCDA has various deposits at a bank at June 30, 2006. All deposits are insured by FDIC insurance up to \$100,000. Various restrictions on deposits and investments, including repurchase agreements, are imposed by state statutes. These restrictions are summarized as follows:

DEPOSITS – All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits.

INVESTMENTS – State statutes authorize the Organization to invest in treasury bonds, notes or bills of the United States; nonconvertible debt securities of the Federal Home Loan Bank, The Federal National Mortgage Association, The Federal Farm Credit Bank and the State Loan Marketing Association; other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies; Certificates of Deposit and other evidences of deposit at State and Federal chartered banks and Savings and Loan Associations; obligations of the United States or its agencies under a repurchase agreement and money market funds whose portfolios consist of any of the foregoing investments if approved by the State Director of Local Finance and made in accordance with procedures established by the State Funding Board; The State of Tennessee Local Government Investment Pool; obligations of the Public Housing Authority and bonds of the Tennessee Valley Authority.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

B. Johnson City Development Authority (Continued)

2. Deposits (continued):

The JCDA does not have a policy for interest rate risk or for credit risk. There were no amounts in excess of FDIC coverage.

Deposits

The Johnson City Development Authority had \$100 cash on hand and the following balances in a bank at June 30, 2006, including certificates of deposits:

	<u>Per Bank</u>	<u>Per Books</u>
Bank	<u>\$36,057</u>	<u>31,779</u>

3. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital Assets, Being Depreciated:					
Office Equipment and Furniture	\$ <u>12,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,721</u>
Total Capital Assets, Being Depreciated	<u>12,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,721</u>
Less Accumulated Depreciation for:					
Office Equipment and Furniture	<u>(11,359)</u>	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>(11,631)</u>
Total Accumulated Depreciation	<u>(11,359)</u>	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>(11,631)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,362</u>	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>1,090</u>
Governmental Activities, Capital Assets, Net	\$ <u>1,362</u>	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>1,090</u>

Depreciation expense of \$272 was charged to the general administrative function in the statement of activities.

4. Leases

Operating Leases

The JCDA leases office space on a year to year basis from the Downtown Partners. Office rent is \$625 per month and total rent paid for the year was \$8,340.

CITY OF JOHNSON CITY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

6. NOTES OF THE DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED):

B. Johnson City Development Authority (Continued)

5. Risk Management

The JCDA carries insurance coverage for general liability and contents. There have been no claims in the current year, or in the past two years, which were not covered by insurance.

6. Economic Dependency

JCDA has a significant dependence on the City of Johnson City which provided approximately 94% of the current year funding.

6. Retirement

During the 2005-2006 fiscal year, the JCDA began an IRA simple plan for the employees. The plan allows for the employer to match the contribution made by the employee, up to 3% of wages. For the fiscal year ended June 30, 2006, the total retirement amount paid by employees was \$3,362 and by the employer was \$2,749.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purpose.

Freedom Hall Civic Center Fund is used to account for the revenues generated from the Civic Center's operations. Fee revenues are supplemented by the General Fund to the extent of the facility's cost.

School Federal Projects Fund accounts for all revenues received under this law.

Special School Projects Fund accounts for all revenues received for various special projects for the schools.

School Food Service Fund accounts for the revenues and expenditures of school cafeterias.

School Site Based Fund accounts for the revenue and expenditures of the site based funds of the school activity funds.

Transportation Planning Fund is used to account for special state and federal pass through state revenues.

Drug Fund accounts for drug fines awarded by court action.

Police Grant Fund accounts for all the police grants from the federal, state and local governments.

Community Development Fund accounts for Housing and Urban Development Funds.

Senior Citizens Fund accounts for contributions and fund raising for the Senior Citizens Center.

Employee Scholarship Fund accounts for donations from City employees for scholarships to City employee children who are entering college.

Homeless Fund accounts for contributions on behalf of the homeless.

Public Aid Fund accounts for donations received from the public to be used to subsidize the City's general operations in an effort to divert future increases in property taxes.

Capital Project Funds, which include *Equipment, Parks, Public Facilities, Infrastructure, and School Projects* are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Industrial Park Fund accounts for Johnson City Industrial Park and expansion expenditures and revenues.

Med Tech Park Fund accounts for Med Tech Park expansion expenditures and revenues.

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

School Trust Fund is used to account for principal trust amounts named and related interest income. The interest is to be used for scholarships for graduating high school students.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Permanent Fund - School Trust Fund	Total Nonmajor Governmental Funds
<u>ASSETS:</u>					
Cash in Bank	\$ 1,079,263	350,572	5,797,482	203,164	7,430,481
Cash on Deposit with State of Tennessee	-	-	53,945	-	53,945
Cash Due from Central Depository	645,647	-	7,004,343	-	7,649,990
Restricted Cash	-	1,395	6,952,423	-	6,953,818
Accounts Receivable	1,000	-	338	-	1,338
Local Option Sales Tax Receivable	-	553,760	-	-	553,760
Due from Other Funds	6,119	-	-	-	6,119
Due from Federal Government	139,281	-	-	-	139,281
Due from State of Tennessee	1,020,253	-	-	-	1,020,253
Local Grants Receivable	4,095	-	-	-	4,095
Notes Receivable	106,193	-	-	-	106,193
Inventories	201,228	-	-	-	201,228
Total Assets	<u>\$ 3,203,079</u>	<u>905,727</u>	<u>19,808,531</u>	<u>203,164</u>	<u>24,120,501</u>
<u>LIABILITIES AND FUND BALANCES:</u>					
<u>Liabilities:</u>					
Cash Due to Central Depository	\$ 102,011	320	1,751,642	-	1,853,973
Accounts Payable	82,809	-	899,765	-	982,574
Accrued Payroll Expenses	302,901	-	-	-	302,901
Accrued Expenses	20,412	-	-	-	20,412
Due to Other Funds	548,819	-	-	-	548,819
Deferred Revenue	150,432	-	-	-	150,432
Retainage Payable	-	-	49,599	-	49,599
Total Liabilities	<u>1,207,384</u>	<u>320</u>	<u>2,701,006</u>	<u>-</u>	<u>3,908,710</u>
<u>Fund Balances:</u>					
Reserved for Compensated Absences	37,890	-	-	-	37,890
Reserved for Community Development	1,121	-	-	-	1,121
Reserved for Inventories	201,228	-	-	-	201,228
Reserved for Debt Service	-	905,407	-	-	905,407
Reserved for School Trust	-	-	-	203,164	203,164
Reserved for Senior Citizens	15,000	-	-	-	15,000
Unreserved:	-	-	-	-	-
Designated for Special Projects	333,321	-	-	-	333,321
Undesignated	1,407,135	-	17,107,525	-	18,514,660
Total Fund Balances	<u>1,995,695</u>	<u>905,407</u>	<u>17,107,525</u>	<u>203,164</u>	<u>20,211,791</u>
Total Liabilities and Fund Balances	<u>\$ 3,203,079</u>	<u>905,727</u>	<u>19,808,531</u>	<u>203,164</u>	<u>24,120,501</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Permanent Fund - School Trust Fund	Total Nonmajor Governmental Funds
<u>Revenues:</u>					
Taxes	\$ -	1,846,834	248,754	-	2,095,588
Federal Government	6,560,463	-	121,371	-	6,681,834
State of Tennessee	274,589	-	-	-	274,589
Local Governments	21,887	-	50,000	-	71,887
Charges for Current Services	1,180,208	-	-	-	1,180,208
Sale of Real Estate	8,000	-	1,460,709	-	1,468,709
Fines and Forfeitures	138,857	-	-	-	138,857
Investment Earnings	25,562	41,707	222,549	5,819	295,637
Use of Property	1,172,936	-	34,445	-	1,207,381
Miscellaneous	236,255	-	86,649	-	322,904
Total Revenues	9,618,757	1,888,541	2,224,477	5,819	13,737,594
<u>Expenditures:</u>					
<u>Current:</u>					
Public Safety	204,209	-	505,229	-	709,438
Public Works	-	-	99,280	-	99,280
Public Welfare	762,473	-	20,231	-	782,704
Senior Citizens	14,036	-	-	-	14,036
Homeless Clinic	101	-	-	-	101
Scholarships Awarded	-	-	-	1,500	1,500
Entertainment and Operation	1,441,028	-	-	-	1,441,028
Highway and Transportation Planning	133,371	-	-	-	133,371
Education	5,251,599	-	-	-	5,251,599
School Food Service	2,304,606	-	-	-	2,304,606
Capital Outlay	384,038	-	4,715,583	-	5,099,621
<u>Debt Service:</u>					
Principal Retirement	-	1,200,000	278,011	-	1,478,011
Interest and Fiscal Charges	-	1,744,818	137,732	-	1,882,550
Bond Issue Costs	-	-	89,043	-	89,043
Total Expenditures	10,495,461	2,944,818	5,845,109	1,500	19,286,888
Excess (Deficiency) of Revenues Over (Under) Expenditures	(876,704)	(1,056,277)	(3,620,632)	4,319	(5,549,294)
<u>Other Financing Sources (Uses):</u>					
Transfers (Net)	1,001,468	924,746	2,716,755	-	4,642,969
Bond Proceeds	-	-	7,000,000	-	7,000,000
Bond Proceeds from Washington County	-	-	2,152,800	-	2,152,800
Total Other Financing Sources (Uses)	1,001,468	924,746	11,869,555	-	13,795,769

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Permanent Fund - School Trust Fund	Total Nonmajor Governmental Funds
Net Change in Fund Balances	124,764	(131,531)	8,248,923	4,319	8,246,475
Fund Balances, July 1, 2005	1,835,073	1,036,938	8,858,602	198,845	11,929,458
Purchase Method Inventory Adjustment	35,858	-	-	-	35,858
Fund Balances, July 1, 2005 (Restated)	1,870,931	1,036,938	8,858,602	198,845	11,965,316
Fund Balances, June 30, 2006	\$ 1,995,695	905,407	17,107,525	203,164	20,211,791

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
June 30, 2006

	Freedom Hall Civic Center	School Funds	Transportation Planning Fund	Drug Fund	Police Grant Fund	Community Development Fund	Senior Citizens Fund	Employee Scholarship Fund	Homeless Fund	Public Aid Fund	Total Special Revenue Funds
ASSETS:											
Cash and Cash Equivalents	\$ 1,875	1,072,133	-	1,000	-	4,255	-	-	-	-	1,079,263
Cash Due from Central Depository	116,505	-	-	288,492	-	-	226,800	13,850	-	-	645,647
Accounts Receivable	1,000	-	-	-	-	-	-	-	-	-	1,000
Due from Other Funds	-	6,119	-	-	-	-	-	-	-	-	6,119
Due from Federal Government	-	-	-	-	13,052	126,229	-	-	-	-	139,281
Due from State of Tennessee	-	962,674	29,996	-	15,997	11,586	-	-	-	-	1,020,253
Local Grants Receivable	-	-	-	-	4,095	-	-	-	-	-	4,095
Notes Receivable	-	-	-	-	-	106,193	-	-	-	-	106,193
Inventories	-	148,327	-	-	-	52,901	-	-	-	-	201,228
Total Assets	\$ 119,380	2,189,253	29,996	289,492	33,144	301,164	226,800	13,850	-	-	3,203,079
LIABILITIES AND FUND BALANCES:											
Liabilities:											
Cash Due to Central Depository	\$ -	-	551	-	3,285	98,175	-	-	-	-	102,011
Accounts Payable	9,396	5,374	2,135	24,787	7,560	33,315	242	-	-	-	82,809
Accrued Payroll Expenses	8,054	289,501	2,002	-	-	3,344	-	-	-	-	302,901
Accrued Expenses	20,412	-	-	-	-	-	-	-	-	-	20,412
Due to Other Funds	-	542,700	-	-	-	6,119	-	-	-	-	548,819
Deferred Revenue	7,227	7,726	-	-	29,290	106,189	-	-	-	-	150,432
Total Liabilities	45,089	845,301	4,688	24,787	40,135	247,142	242	-	-	-	1,207,384
Fund Balances:											
Reserved for Compensated Absences	35,914	-	1,976	-	-	-	-	-	-	-	37,890
Reserved for Community Development	-	-	-	-	-	1,121	-	-	-	-	1,121
Reserved for Inventories	-	148,327	-	-	-	52,901	-	-	-	-	201,228
Reserved for Senior Citizens	-	-	-	-	-	-	15,000	-	-	-	15,000
Unreserved:											
Designated for Special Projects	-	333,321	-	-	-	-	-	-	-	-	333,321
Undesignated	38,377	862,304	23,332	264,705	(6,991)	-	211,558	13,850	-	-	1,407,135
Total Fund Balances	74,291	1,343,952	25,308	264,705	(6,991)	54,022	226,558	13,850	-	-	1,995,695
Total Liabilities and Fund Balances	\$ 119,380	2,189,253	29,996	289,492	33,144	301,164	226,800	13,850	-	-	3,203,079

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2006

	Freedom Hall Civic Center	School Funds	Transportation Planning Fund	Drug Fund	Police Grant Fund	Community Development	Senior Citizens Fund	Employee Scholarship Fund	Homeless Fund	Public Aid Fund	Total Special Revenue Funds
<u>Revenues:</u>											
Federal Government	-	5,935,359	1,503	-	55,579	568,022	-	-	-	-	6,560,463
State of Tennessee	-	77,854	109,176	-	37,159	50,400	-	-	-	-	274,589
Local Governments	-	8,724	-	-	13,163	-	-	-	-	-	21,887
Charges for Current Services	-	1,180,208	-	-	-	-	-	-	-	-	1,180,208
Sale of Real Estate	-	-	-	-	-	8,000	-	-	-	-	8,000
Fines and Forfeitures	-	-	-	138,857	-	-	-	-	-	-	138,857
Investment Earnings	-	16,654	-	-	-	-	8,132	290	-	485	25,562
Use of Property	\$ 1,172,936	-	-	-	-	-	-	-	-	-	1,172,936
Miscellaneous	34,106	-	-	1,700	2,408	126,170	58,798	12,973	100	-	236,255
Total Revenues	1,207,042	7,218,799	110,679	140,557	108,309	752,592	66,930	13,263	101	485	9,618,757
<u>Expenditures:</u>											
<u>Current:</u>											
Public Safety	-	-	-	77,353	126,856	-	-	-	-	-	204,209
Public Welfare	-	-	-	-	-	762,473	-	-	-	-	762,473
Senior Citizens	-	-	-	-	-	-	14,036	-	-	-	14,036
Homeless Clinic	-	-	-	-	-	-	-	-	101	-	101
Entertainment and Operation	1,441,028	-	-	-	-	-	-	-	-	-	1,441,028
Highway and Transportation Planning	-	-	133,371	-	-	-	-	-	-	-	133,371
Education	-	5,251,599	-	-	-	-	-	-	-	-	5,251,599
School Food Service	-	2,304,606	-	-	-	-	-	-	-	-	2,304,606
Capital Outlay	-	317,212	-	66,826	-	-	-	-	-	-	384,038
Total Expenditures	1,441,028	7,873,417	133,371	144,179	126,856	762,473	14,036	-	101	-	10,495,461
Excess (Deficiency) of Revenues Over (Under) Expenditures	(233,986)	(654,618)	(22,692)	(3,622)	(18,547)	(9,881)	52,894	13,263	-	485	(876,704)
<u>Other Financing Sources (Uses):</u>											
Transfers (Net)	213,240	778,918	36,500	(27,895)	11,287	-	-	-	-	(10,582)	1,001,468
Total Other Financing Sources (Uses)	213,240	778,918	36,500	(27,895)	11,287	-	-	-	-	(10,582)	1,001,468
Net Change in Fund Balances	(20,746)	124,300	13,808	(31,517)	(7,260)	(9,881)	52,894	13,263	-	(10,097)	124,764
Fund Balances, July 1, 2005	95,037	1,236,695	11,501	296,222	269	11,002	173,663	587	-	10,097	1,835,073
Purchase Method Inventory Adjustment	-	(17,043)	-	-	-	52,901	-	-	-	-	35,858
Fund Balances, July 1, 2005 (Restated)	95,037	1,219,652	11,501	296,222	269	63,903	173,663	587	0	10,097	1,870,931
Fund Balances, June 30, 2006	\$ 74,291	1,343,952	25,309	264,705	(6,991)	54,022	226,557	13,850	0	-	1,995,695

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING BALANCE SHEET
SCHOOL FUNDS
June 30, 2006

	School Federal Projects Fund	Special School Projects Fund	School Food Service Fund	School Site Based Fund	Total School Funds
<u>ASSETS:</u>					
Cash and Cash Equivalents	\$ -	-	738,227	333,906	1,072,133
Due from Other Funds	-	6,119	-	-	6,119
Due from State of Tennessee	750,170	80,883	131,621	-	962,674
Inventories	-	-	148,327	-	148,327
Total Assets	<u>\$ 750,170</u>	<u>87,002</u>	<u>1,018,175</u>	<u>333,906</u>	<u>2,189,253</u>
<u>LIABILITIES AND FUND BALANCES:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$ 1,250	6,000	(2,461)	585	5,374
Accrued Payroll Expenses	277,702	1,794	10,005	-	289,501
Due to Other Funds	463,492	79,208	-	-	542,700
Deferred Revenue	7,726	-	-	-	7,726
Total Liabilities	<u>750,170</u>	<u>87,002</u>	<u>7,544</u>	<u>585</u>	<u>845,301</u>
<u>Fund Balances:</u>					
Reserved for Inventory	-	-	148,327	-	148,327
Unreserved:					
Designated for Special Projects	-	-	-	333,321	333,321
Undesignated	-	-	862,304	-	862,304
Total Fund Balances	<u>0</u>	<u>0</u>	<u>1,010,631</u>	<u>333,321</u>	<u>1,343,952</u>
Total Liabilities and Fund Balances	<u>\$ 750,170</u>	<u>87,002</u>	<u>1,018,175</u>	<u>333,906</u>	<u>2,189,253</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
SCHOOL FUNDS
For the Fiscal Year Ended June 30, 2006

	School Federal Projects Fund	Special School Projects Fund	School Food Service Fund	School Site Based Fund	Total School Funds
<u>Revenues:</u>					
Federal Government	\$ 4,416,139	211,160	1,308,060	-	5,935,359
State of Tennessee	-	44,600	33,254	-	77,854
Local Governments	-	8,724	-	-	8,724
Charges for Current Services	-	-	1,180,208	-	1,180,208
Investment Earnings	-	-	16,654	-	16,654
Miscellaneous	-	-	-	-	-
Total Revenues	4,416,139	264,484	2,538,176	-	7,218,799
<u>Expenditures:</u>					
Current:					
Education	4,232,287	260,220	-	759,092	5,251,599
School Food Service	-	-	2,304,606	-	2,304,606
Capital Outlay	212,455	9,014	95,743	-	317,212
Total Expenditures	4,444,742	269,234	2,400,349	759,092	7,873,417
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,603)	(4,750)	137,827	(759,092)	(654,618)
<u>Other Financing Sources (Uses):</u>					
Transfers (Net)	28,603	4,750	-	745,565	778,918
Total Other Financing Sources (Uses)	28,603	4,750	-	745,565	778,918
Net Change in Fund Balances	-	-	137,827	(13,527)	124,300
Fund Balances, July 1, 2005	-	-	889,847	346,848	1,236,695
Purchase Method Inventory Adjustment	-	-	(17,043)	-	(17,043)
Fund Balances, July 1, 2005 (Restated)	-	-	872,804	346,848	1,219,652
Fund Balances, June 30, 2006	\$ -	-	1,010,631	333,321	1,343,952

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS
June 30, 2006

	Various Project Funds							Total Capital Project Funds
	Equipment Fund	Parks Fund	Public Facilities Fund	Infrastructure Fund	Schools Fund	Industrial Park Fund	Med Tech Park Fund	
<u>ASSETS:</u>								
Cash and Cash Equivalents	\$ -	-	-	-	5,797,482	-	-	5,797,482
Cash on Deposit with State of Tennessee	-	-	-	53,945	-	-	-	53,945
Cash Due from Central Depository	1,049,640	177,849	393,695	3,051,488	-	-	2,331,671	7,004,343
Restricted Cash	41,465	-	987,280	2,961,839	2,961,839	-	-	6,952,423
Accounts Receivable	-	-	-	-	-	338	-	338
Total Assets	\$ 1,091,105	177,849	1,380,975	6,067,272	8,759,321	338	2,331,671	19,808,531
<u>LIABILITIES AND FUND BALANCES:</u>								
<u>Liabilities:</u>								
Cash Due to Central Depository	\$ -	-	-	-	178,771	1,572,871	-	1,751,642
Accounts Payable	47,381	56	22,423	777,538	48,466	718	3,183	899,765
Retainage Payable	-	30,580	19,019	-	-	-	-	49,599
Total Liabilities	47,381	30,636	41,442	777,538	227,237	1,573,589	3,183	2,701,006
<u>Fund Balances</u>								
Unreserved:								
Undesignated	1,043,724	147,213	1,339,533	5,289,734	8,532,084	(1,573,251)	2,328,488	17,107,525
Total Fund Balances	1,043,724	147,213	1,339,533	5,289,734	8,532,084	(1,573,251)	2,328,488	17,107,525
Total Liabilities and Fund Balances	\$ 1,091,105	177,849	1,380,975	6,067,272	8,759,321	338	2,331,671	19,808,531

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUNDS
For the Fiscal Year Ended June 30, 2006

	Various Project Funds							Total Capital Project Funds
	Equipment Fund	Parks Fund	Public Facilities Fund	Infrastructure Fund	Schools Fund	Industrial Park Fund	Med Tech Park Fund	
<u>Revenues:</u>								
Taxes	-	-	-	-	-	-	248,754	248,754
Federal Government	121,371	-	-	-	-	-	-	121,371
Local Governments	50,000	-	-	-	-	-	-	50,000
Sale of Real Estate	-	-	-	-	-	-	1,460,709	1,460,709
Investment Earnings	-	663	-	2,444	220,427	-	(985)	222,549
Use of Property	-	-	-	-	-	34,445	-	34,445
Miscellaneous	-	81,846	-	4,803	-	-	-	86,649
Total Revenues	171,371	82,509	-	7,247	220,427	34,445	1,708,478	2,224,477
<u>Expenditures:</u>								
Current:								
Public Safety	505,229	-	-	-	-	-	-	505,229
Public Works	24,783	-	69,526	4,971	-	-	-	99,280
Public Welfare	-	-	-	-	-	20,231	-	20,231
Capital Outlay	506,088	136,049	1,257,372	2,091,331	184,314	-	540,429	4,715,583
Debt Service:								
Retirement of Debt	-	-	-	-	-	-	278,011	278,011
Interest and Fiscal Charges	-	-	-	-	-	-	137,732	137,732
Bond Issue Costs	-	-	12,721	38,161	38,161	-	-	89,043
Total Expenditures	1,036,100	136,049	1,339,619	2,134,463	222,475	20,231	956,172	5,845,109
Excess (Deficiency) of Revenues Over (Under) Expenditures	(864,729)	(53,540)	(1,339,619)	(2,127,216)	(2,048)	14,214	752,306	(3,620,632)

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECT FUNDS
For the Fiscal Year Ended June 30, 2006

	Various Project Funds						Total Capital Project Funds
	Equipment Fund	Parks Fund	Public Facilities Fund	Infrastructure Fund	Schools Fund	Industrial Park Fund	Med Tech Park Fund
Other Financing Sources (Uses):							
Operating Transfers (Net)	1,770,095	11,537	614,575	80,386	-	-	240,162
Bond and Proceeds	-	-	1,000,000	3,000,000	3,000,000	-	-
Bond Proceeds from Washington County	-	-	-	-	2,152,800	-	-
Total Other Financing Sources (Uses)	1,770,095	11,537	1,614,575	3,080,386	5,152,800	-	240,162
Net Change in Fund Balances	905,366	(42,003)	274,956	953,170	5,150,752	14,214	992,468
Fund Balances, July 1, 2005	138,358	189,216	1,064,577	4,336,564	3,381,332	(1,587,465)	1,336,020
Fund Balances, June 30, 2006	\$ 1,043,724	147,213	1,339,533	5,289,734	8,532,084	(1,573,251)	2,328,488
							17,107,525

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FREEDOM HALL CIVIC CENTER
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Use of Property	\$ 1,325,787	1,441,537	1,172,936	(268,601)
Miscellaneous	166,750	51,000	34,106	(16,894)
Total Revenues	1,492,537	1,492,537	1,207,042	(285,495)
<u>Expenditures:</u>				
Civic Center Entertainment and Operation	1,705,777	1,705,777	1,441,028	264,749
Total Expenditures	1,705,777	1,705,777	1,441,028	264,749
Excess (Deficiency) of Revenues Over (Under) Expenditures	(213,240)	(213,240)	(233,986)	(20,746)
<u>Other Financing Sources (Uses):</u>				
Transfer In	213,240	213,240	213,240	-
Total Other Financing Sources (Uses)	213,240	213,240	213,240	-
Net Change in Fund Balances	-	-	(20,746)	(20,746)
Fund Balance, July 1, 2005	95,037	95,037	95,037	-
Fund Balance, June 30, 2006	<u>\$ 95,037</u>	<u>\$ 95,037</u>	<u>\$ 74,291</u>	<u>(20,746)</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SCHOOL FEDERAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues:</u>				
Federal Government	\$ 4,391,360	5,133,127	4,416,139	(716,988)
Total Revenues	4,391,360	5,133,127	4,416,139	(716,988)
<u>Expenditures:</u>				
Education	4,391,360	4,909,284	4,232,287	676,997
Capital Outlay	-	216,248	212,455	3,793
Total Expenditures	4,391,360	5,125,532	4,444,742	680,790
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	7,595	(28,603)	(36,198)
<u>Other Financing Sources (Uses):</u>				
Transfer In, net	-	(7,595)	28,603	36,198
Total Other Financing Sources (Uses)	-	(7,595)	28,603	36,198
Net Change in Fund Balances	-	-	-	-
Fund Balance, July 1, 2005	-	-	-	-
Fund Balance, June 30, 2006	\$ -	-	-	-

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL SCHOOL PROJECTS FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Federal Government	\$ 304,146	250,634	211,160	(39,474)
State of Tennessee	-	39,012	44,600	5,588
Local Governments	-	10,000	8,724	(1,276)
Total Revenues	304,146	299,646	264,484	(35,162)
<u>Expenditures:</u>				
Education	304,146	294,136	260,220	33,916
Capital Outlay	-	10,010	9,014	996
Total Expenditures	304,146	304,146	269,234	34,912
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(4,500)	(4,750)	(250)
<u>Other Financing Sources (Uses):</u>				
Transfer In	-	4,500	4,750	250
Transfer from Other Special Revenue Funds	-	-	-	-
Total Other Financing Sources (Uses)	-	4,500	4,750	250
Net Change in Fund Balances	-	-	-	-
Fund Balance, July 1, 2005	-	-	-	-
Fund Balance, June 30, 2006	\$ -	-	-	-

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SCHOOL FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Federal Government	\$ 1,304,500	1,145,500	1,308,060	162,560
State of Tennessee	34,000	-	33,254	33,254
Charges for Current Services	1,110,000	1,112,000	1,180,208	68,208
Investment Earnings	22,000	7,000	16,654	9,654
Total Revenues	2,470,500	2,264,500	2,538,176	273,676
<u>Expenditures:</u>				
School Food Service	2,420,500	2,206,400	2,304,606	(98,206)
Capital Outlay	50,000	58,100	95,743	(37,643)
Total Expenditures	2,470,500	2,264,500	2,400,349	(135,849)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	137,827	137,827
Fund Balance, July 1, 2005	889,847	889,847	889,847	-
Purchase Method Inventory Adjustment	(17,043)	(17,043)	(17,043)	-
Fund Balance, July 1, 2005 (Restated)	872,804	872,804	872,804	-
Fund Balance, June 30, 2006	\$ 872,804	872,804	1,010,631	137,827

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
TRANSPORTATION PLANNING FUND
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues:</u>				
Revenue from Federal Government	\$ 34,589	30,000	1,503	(28,497)
Revenue from State of Tennessee	197,623	202,212	109,176	(93,036)
Total Revenues	232,212	232,212	110,679	(121,533)
<u>Expenditures:</u>				
Highway and Transportation Planning	268,712	261,712	133,371	128,341
Capital Outlay	-	7,000	-	7,000
Total Expenditures	268,712	268,712	133,371	135,341
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,500)	(36,500)	(22,692)	13,808
<u>Other Financing Sources (Uses):</u>				
Transfer In	36,500	36,500	36,500	-
Total Other Financing Sources (Uses)	36,500	36,500	36,500	-
Net Change in Fund Balances	-	-	13,808	13,808
Fund Balance July 1, 2005	11,501	11,501	11,501	-
Fund Balance, June 30, 2006	\$ -	-	25,309	13,808

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
DRUG FUND
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues:</u>				
Fines and Forfeitures	\$ 91,730	146,730	138,857	(7,873)
Miscellaneous	-	-	1,700	1,700
Total Revenues	91,730	146,730	140,557	(6,173)
<u>Expenditures:</u>				
Public Safety	40,000	40,000	77,353	(37,353)
Capital Outlay	25,000	80,000	66,826	13,174
Total Expenditures	65,000	120,000	144,179	(24,179)
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,730	26,730	(3,622)	(30,352)
<u>Other Financing Sources (Uses):</u>				
Transfer Out	(11,446)	(11,446)	(27,895)	(16,449)
Total Other Financing Sources (Uses)	(11,446)	(11,446)	(27,895)	(16,449)
Net Change in Fund Balances	15,284	15,284	(31,517)	(46,801)
Fund Balance, July 1, 2005	296,222	296,222	296,222	-
Fund Balance, June 30, 2006	\$ 311,506	311,506	264,705	(46,801)

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
POLICE GRANT FUND
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues:</u>				
Federal Government	\$ 17,010	77,605	55,579	(22,026)
State of Tennessee	34,339	34,339	37,159	2,820
Local Governments	16,536	16,536	13,163	(3,373)
Investment Earnings	200	200	-	(200)
Miscellaneous	-	-	2,408	2,408
Total Revenues	68,085	128,680	108,309	(20,371)
<u>Expenditures:</u>				
Public Safety	79,531	140,126	126,856	13,270
Capital Outlay	-	-	-	-
Total Expenditures	79,531	140,126	126,856	13,270
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,446)	(11,446)	(18,547)	(7,101)
<u>Other Financing Sources (Uses):</u>				
Transfer In - Drug Fund	11,446	11,446	11,287	(159)
Total Other Financing Sources (Uses)	11,446	11,446	11,287	(159)
Net Change in Fund Balances	-	-	(7,260)	(7,260)
Fund Balance, July 1, 2005	269	269	269	-
Fund Balance, June 30, 2006	\$ 269	269	(6,991)	(7,260)

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Federal Government	\$ 557,638	569,638	568,022	(1,616)
State of Tennessee	-	50,400	50,400	-
Sale of Real Estate	-	8,000	8,000	-
Miscellaneous	10,000	126,426	126,170	(256)
Total Revenues	567,638	754,464	752,592	(1,872)
<u>Expenditures:</u>				
Public Welfare	567,638	765,464	762,473	2,991
Capital Outlay	-	-	-	-
Total Expenditures	567,638	765,464	762,473	2,991
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(11,000)	(9,881)	1,119
<u>Other Financing Sources (Uses):</u>				
Transfer In - General Fund	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	(11,000)	(9,881)	1,119
Fund Balance, July 1, 2005	11,002	11,002	11,002	-
Purchase Method Inventory Adjustment	52,901	52,901	52,901	-
Fund Balance, July 1, 2005 (Restated)	63,903	63,903	63,903	-
Fund Balance, June 30, 2006	\$ 63,903	\$ 52,903	\$ 54,022	\$ 1,119

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Taxes	\$ 1,750,000	1,750,000	1,846,834	96,834
Investment Earnings	20,000	20,000	41,707	21,707
Total Revenues	1,770,000	1,770,000	1,888,541	118,541
<u>Expenditures:</u>				
Debt Service:				
Principal Retirement	1,200,000	1,200,000	1,200,000	-
Interest and Fiscal Charges	1,887,318	1,887,318	1,744,818	142,500
Total Expenditures	3,087,318	3,087,318	2,944,818	142,500
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,317,318)	(1,317,318)	(1,056,277)	261,041
<u>Other Financing Sources (Uses):</u>				
Transfer Out	(44,000)	(44,000)	(44,000)	-
Transfer In	900,000	900,000	968,746	68,746
Total Other Financing Sources (Uses)	856,000	856,000	924,746	68,746
Net Change in Fund Balances	(461,318)	(461,318)	(131,531)	329,787
Fund Balance, July 1, 2005	1,036,938	1,036,938	1,036,938	-
Fund Balance, June 30, 2006	\$ 575,620	575,620	905,407	329,787

See Independent Auditors' Report.

NONMAJOR PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business, where the intent of the City is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the determination of net income is an important measurement of performance.

Golf Course Fund accounts for the activities of the City's two 18-hole golf courses.

Regional Solid Waste Fund accounts for the activities of the City's regional residential garbage, refuse collection and recycling activities.

Mass Transit Fund accounts for the activities funded by federal grants from the Federal Transportation Administration and state grants provided from federal funds for support of local government transportation programs.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
<u>ASSETS:</u>				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 1,170	-	1,917	3,087
Cash Due from Central Depository	-	1,560,611	238,670	1,799,281
Accounts Receivable (Net)	-	42,372	6,856	49,228
Due from Federal Government	-	-	250,940	250,940
Due from State Government	-	-	106,587	106,587
Inventories	140,782	-	-	140,782
Prepaid Expenses	4,500	-	-	4,500
Total Current Assets	146,452	1,602,983	604,970	2,354,405
<u>Noncurrent Assets:</u>				
<u>Capital Assets:</u>				
Land	1,927,942	-	205,990	2,133,932
Buildings	718,320	204,192	1,738,230	2,660,742
Improvements Other than Buildings	972,111	-	186,356	1,158,467
Equipment and Vehicles	773,321	1,287,273	2,926,368	4,986,962
Less: Accumulated Depreciation	(1,718,791)	(672,555)	(2,079,496)	(4,470,842)
Construction in Progress	13,421	-	-	13,421
Net Capital Assets	2,686,324	818,910	2,977,448	6,482,682
<u>Other Assets:</u>				
Bond Issue Costs (Net)	19,489	-	-	19,489
Total Other Assets	19,489	-	-	19,489
Total Noncurrent Assets	2,705,813	818,910	2,977,448	6,502,171
Total Assets	2,852,265	2,421,893	3,582,418	8,856,576
<u>LIABILITIES:</u>				
<u>Current Liabilities:</u>				
Cash Due to Central Depository	1,823,618	-	-	1,823,618
Accounts Payable	30,360	38,640	25,213	94,213
Accrued Payroll Expenses	24,045	14,276	33,648	71,969
Accrued Expenses	13,141	214	-	13,355
Compensated Absences-Current Portion	27,749	16,714	12,338	56,801
Bonds Payable - Current Portion	165,000	102,808	-	267,808
Total Current Liabilities	2,083,913	172,652	71,199	2,327,764

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
<u>Noncurrent Liabilities:</u>				
Deferred Revenue	9,203	-	-	9,203
Compensated Absences	14,942	9,000	22,914	46,856
Bonds Payable	1,900,000	-	-	1,900,000
Less: Deferred Debt Refunding	(80,465)	-	-	(80,465)
Special Commission Bonds	-	93,737	-	93,737
Total Noncurrent Liabilities	1,843,680	102,737	22,914	1,969,331
Total Liabilities	3,927,593	275,389	94,113	4,297,095
<u>NET ASSETS:</u>				
Invested in Capital Assets, Net of Related Debt	721,278	716,102	2,977,448	4,414,828
Unrestricted	(1,796,606)	1,430,402	510,857	144,653
Total Net Assets	\$ (1,075,328)	2,146,504	3,488,305	4,559,481

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
<u>Operating Revenues:</u>				
Charges for Services (Net)	\$ 990,528	2,001,125	224,283	3,215,936
Other Revenue	1,220	-	38,341	39,561
Total Operating Revenues	991,748	2,001,125	262,624	3,255,497
<u>Operating Expenses:</u>				
Administration	-	90,000	-	90,000
Personnel Services	704,051	486,123	1,380,217	2,570,391
Contractual Services	29,158	446,031	18,410	493,599
Materials and Supplies	75,196	48,258	59,274	182,728
Repairs and Maintenance	82,546	395,270	355,267	833,083
Bad Debt Expense	105	15,013	122	15,240
Items for Resale	67,096	-	-	67,096
Other Operating Expenses	125,860	5,908	61,409	193,177
Depreciation and Amortization	104,131	121,747	318,339	544,217
Total Operating Expenses	1,188,143	1,608,350	2,193,038	4,989,531
Operating Income (Loss)	(196,395)	392,775	(1,930,414)	(1,734,034)
<u>Non-Operating Revenues (Expenses):</u>				
Investment Income	-	74,956	-	74,956
Operating Grants	-	-	1,103,458	1,103,458
Interest Expenses and Commissions	(203,854)	(6,846)	-	(210,700)
Amortization - Bond Cost	(1,949)	-	-	(1,949)
Total Non-Operating Revenues (Expenses)	(205,803)	68,110	1,103,458	965,765
Income (Loss) Before Operating Transfers and Capital Contributions	(402,198)	460,885	(826,956)	(768,269)
<u>Transfers and Capital Contributions:</u>				
Transfers In	325,000	-	404,467	729,467
Transfers Out	-	(134,000)	-	(134,000)
Federal Capital Grant Revenue	-	-	320,035	320,035
State Capital Grant Revenue	-	-	498,177	498,177
Total Transfers and Capital Contributions	325,000	(134,000)	1,222,679	1,413,679

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
Change in Net Assets	(77,198)	326,885	395,723	645,410
Net Assets, July 1, 2005	(998,130)	1,819,619	3,092,582	3,914,071
Net Assets, June 30, 2006	<u>\$ (1,075,328)</u>	<u>2,146,504</u>	<u>3,488,305</u>	<u>4,559,481</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers and Users	\$ 989,257	1,992,326	253,870	3,235,453
Payments to Employees	(697,374)	(481,648)	(1,361,464)	(2,540,486)
Payments to Suppliers	(300,558)	(522,400)	(140,701)	(963,659)
Payments for Interfund Services Used	(58,661)	(466,491)	(342,849)	(868,001)
Net Cash Provided (Used) by Operating Activities	(67,336)	521,787	(1,591,144)	(1,136,693)
<u>Cash Flows from Noncapital Financing Activities:</u>				
Transfers to Other Funds	-	(134,000)	-	(134,000)
Advances from Other Funds	325,000	-	404,467	729,467
Operating Grants Received	-	-	1,023,590	1,023,590
Loans from Other Funds	115,136	-	-	115,136
Net Cash Provided (Used) by Noncapital Financing Activities	440,136	(134,000)	1,428,057	1,734,193
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Purchase of Capital Assets	(13,422)	(186,859)	(686,026)	(886,307)
Capital Grants Received	-	-	818,212	818,212
Principal Paid on Capital Debt	(165,000)	(97,897)	-	(262,897)
Interest Paid on Capital Debt	(194,378)	(6,632)	-	(201,010)
Net Cash Provided (Used) by Capital and Related Financing Activities	(372,800)	(291,388)	132,186	(532,002)
<u>Cash Flows from Investing Activities:</u>				
Interest and Related Income/Expenses and Investments	-	74,957	-	74,957
Net Cash Provided (Used) by Investing Activities	-	74,957	-	74,957
Net Increase in Cash and Cash Equivalents	-	171,356	(30,901)	140,455
Cash and Cash Equivalents, July 1, 2005	1,170	1,389,255	271,488	1,661,913
Cash and Cash Equivalents, June 30, 2006	\$ 1,170	1,560,611	240,587	1,802,368
Classified as Current Assets	\$ 1,170	1,560,611	240,587	1,802,368
Totals	\$ 1,170	1,560,611	240,587	1,802,368

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	Golf Courses	Regional Solid Waste	Mass Transit	Total Nonmajor Proprietary Funds
<u>Reconciliation of Operating Income (Loss) to Net</u>				
<u>Cash Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$ (196,395)	392,775	(1,930,414)	(1,734,034)
Adjustments:				
Depreciation	104,131	121,748	318,339	544,218
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	-	6,213	1,179	7,392
(Increase) Decrease in Inventories	8,108	-	-	8,108
Increase (Decrease) in Accounts Payable and Accrued Expenses	12,952	(3,424)	10,810	20,338
Other Payables	(423)	-	-	(423)
Increase (Decrease) in Accrued Payroll Expenses	6,856	3,369	14,899	25,124
Increase (Decrease) in Compensated Absences	(179)	1,106	3,854	4,781
Increase (Decrease) in Deferred Revenue	(2,386)	-	(9,811)	(12,197)
Net Cash Provided (Used) by Operating Activities	<u>\$ (67,336)</u>	<u>521,787</u>	<u>(1,591,144)</u>	<u>(1,136,693)</u>

Non-Cash Capital and Related Financing Activities:

Buffalo Valley Golf Course:

- Amortization of Deferred Bond Refunding totaling \$10,608 was included with Interest Expense on the Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.

Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities

Cash on Hand	\$ 1,170	-	1,917	3,087
Cash Due From Central Depository	-	1,560,611	238,670	1,799,281
	<u>\$ 1,170</u>	<u>1,560,611</u>	<u>240,587</u>	<u>1,802,368</u>

See Independent Auditors' Report.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to another department or agency on a cost reimbursement basis.

Insurance Fund accounts for self-insured health and workers' compensation insurance.

Motor Transport Fund accounts for the maintenance and repair of the City's fleet of various motor vehicles.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2006

	Insurance Fund	Motor Transport	Total Internal Service Funds
<u>ASSETS:</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents	\$ 8,859,143	-	8,859,143
Cash Due from Central Depository	309,029	-	309,029
Accounts Receivable (Net)	8,698	-	8,698
Due from Other Funds	16,901	-	16,901
Inventories	-	408,712	408,712
Total Current Assets	9,193,771	408,712	9,602,483
<u>Non-Current Assets:</u>			
<u>Capital Assets:</u>			
Equipment and Vehicles	-	675,658	675,658
Less: Accumulated Depreciation	-	(627,630)	(627,630)
Net Capital Assets	-	48,028	48,028
Total Non-Current Assets	-	48,028	48,028
Total Assets	9,193,771	456,740	9,650,511
<u>LIABILITIES:</u>			
<u>Current Liabilities:</u>			
Cash Due to Central Depository	-	16,628	16,628
Accounts Payable	3,261	296,517	299,778
Accrued Payroll Expenses	1,850	40,254	42,104
Compensated Absences-Current Portion	-	32,846	32,846
Other Liabilities	1,131,140	-	1,131,140
Total Current Liabilities	1,136,251	386,245	1,522,496
<u>Non-Current Liabilities:</u>			
Compensated Absences	-	17,686	17,686
Total Non-Current Liabilities	0	17,686	17,686
Total Liabilities	1,136,251	403,931	1,540,182
<u>NET ASSETS:</u>			
Invested in Capital Assets, Net of Related Debt	-	48,028	48,028
Unrestricted	8,057,520	4,781	8,062,301
Total Net Assets	\$ 8,057,520	52,809	8,110,329

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS-INTERNAL SERVICE FUNDS
For the Fiscal Year Ended June 30, 2006

	Insurance Fund	Motor Transport	Total Internal Service Funds
<u>Operating Revenues:</u>			
Charges for Services (Net)	\$ 12,454,428	5,220,695	17,675,123
Miscellaneous	-	3,133	3,133
Total Operating Revenues	12,454,428	5,223,828	17,678,256
<u>Operating Expenses:</u>			
Personnel Services	90,071	1,680,311	1,770,382
Contractual Services	11,285,610	74,305	11,359,915
Materials and Supplies	-	36,229	36,229
Repairs and Maintenance	-	3,301,504	3,301,504
Other Operating Expenses	-	124,459	124,459
Depreciation and Amortization	-	18,520	18,520
Total Operating Expenses	11,375,681	5,235,328	16,611,009
Operating Income (Loss)	1,078,747	(11,500)	1,067,247
<u>Non-Operating Revenues (Expenses):</u>			
Investment Income	316,496	-	316,496
Total Non-Operating Revenues (Expenses)	316,496	-	316,496
Income (Loss) Before Operating Transfers and Capital Contributions	1,395,243	(11,500)	1,383,743
<u>Transfers and Capital Contributions:</u>			
Transfers In	-	11,500	11,500
Total Transfers and Capital Contributions	-	11,500	11,500
Change in Net Assets	1,395,243	-	1,395,243
Net Assets, July 1, 2005	6,662,277	52,809	6,715,086
Net Assets, June 30, 2006	\$ 8,057,520	52,809	8,110,329

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Fiscal Year Ended June 30, 2006

	Insurance Fund	Motor Transport	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>			
Receipts from Customers and Users	\$ 12,445,730	345,698	12,791,428
Receipts from Interfund Services Provided	-	4,885,978	4,885,978
Payments to Employees	(88,687)	(1,667,345)	(1,756,032)
Payments to Suppliers	(10,947,397)	(3,420,328)	(14,367,725)
Payments for Interfund Services Used	-	(37,573)	(37,573)
Net Cash Provided (Used) by Operating Activities	1,409,646	106,430	1,516,076
<u>Cash Flows from Noncapital Financing Activities:</u>			
Loans from Other Funds	(16,901)	(95,431)	(112,332)
Net Cash Provided (Used) by Noncapital Financing Activities	(16,901)	(95,431)	(112,332)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Purchase of Capital Assets	-	(10,999)	(10,999)
Net Cash Provided by (Used for) Capital and Related Financing Activities	-	(10,999)	(10,999)
<u>Cash Flows from Investing Activities:</u>			
Interest Received	316,496	-	316,496
Net Cash Provided (Used) by Investing Activities	316,496	-	316,496
Net Increase (Decrease) in Cash and Cash Equivalents	1,709,241	-	1,709,241
Cash and Cash Equivalents, July 1, 2005	7,458,931	-	7,458,931
Cash and Cash Equivalents, June 30, 2006	\$ 9,168,172	\$ -	9,168,172
Classified as Current Assets:	\$ 9,168,172	-	9,168,172
Totals	\$ 9,168,172	\$ -	9,168,172

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Fiscal Year Ended June 30, 2006

	Insurance Fund	Motor Transport	Total Internal Service Funds
<u>Reconciliation of Operating Income (Loss) to Net</u>			
<u>Cash Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$ 1,078,747	(11,500)	1,067,247
Adjustments:			
Depreciation and Amortization	-	18,520	18,520
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(8,699)	7,847	(852)
(Increase) Decrease in Inventories	-	(59,820)	(59,820)
Increase (Decrease) in Accounts Payable	339,598	138,417	478,015
Increase (Decrease) in Accrued Payroll Expenses	-	10,703	10,703
Increase (Decrease) in Compensated Absences	-	2,263	2,263
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,409,646</u>	<u>106,430</u>	<u>1,516,076</u>

Reconciliation of Cash and Cash Equivalents from Statement of Cash Flows

Cash in Bank	\$ 8,859,143	-	8,859,143
Cash Due from Central Depository	309,029	-	309,029
	<u>9,168,172</u>	<u>-</u>	<u>9,168,172</u>

See Independent Auditors' Report.

CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS

CITY OF JOHNSON CITY, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE BY SOURCE¹
June 30, 2006

	<u>2006</u>	<u>2005</u>
<u>Governmental Funds Capital Assets:</u>		
Land	17,075,562	17,495,946
Buildings	137,831,648	136,879,900
Equipment and Vehicles	28,993,845	27,995,292
Infrastructure	132,167,490	126,879,690
Construction in Progress	<u>1,487,764</u>	<u>3,385,534</u>
Total Governmental Funds Capital Assets	<u><u>317,556,309</u></u>	<u><u>312,636,362</u></u>
 <u>Investments in Governmental Funds Capital Assets by Source:</u>		
General Fund	185,535,790	179,645,704
General Purpose School Fund	2,459,046	2,230,181
Special Revenue Funds	118,575,881	118,707,988
Capital Project Funds	9,497,828	8,666,955
Construction in Progress	<u>1,487,764</u>	<u>3,385,534</u>
Total Governmental Funds Capital Assets	<u><u>317,556,309</u></u>	<u><u>312,636,362</u></u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

A prior period adjustment was reported in 2006 in the amount of \$1,374,148. Of the total prior period adjustment, \$1,163,964 is to adjust for expenditures previously recognized as construction in progress. The expenditures were incurred in an infrastructure project that will not result in any additions to infrastructure as defined by the Governmental Accounting Standards Board. An additional \$210,184 was to remove land that was sold in a prior year. Total governmental funds capital assets as originally reported in 2005 were \$312,636,362. The effect is to reduce the prior year total by \$1,374,148, resulting in total governmental funds capital assets as of June 30, 2005 of \$311,262,214.

CITY OF JOHNSON CITY, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY¹
June 30, 2006

Function and Activity	Land	Buildings	Equipment & Vehicles	Infrastructure	Construction in Progress	Total
General Government:						
General Administration	\$ 7,547,486	14,999,366	939,333	-	10,532	23,496,717
Information Technology	-	-	2,032,039	-	-	2,032,039
Total General Government	<u>7,547,486</u>	<u>14,999,366</u>	<u>2,971,372</u>	<u>-</u>	<u>10,532</u>	<u>25,528,756</u>
Education:						
General Operations	7,517,242	107,196,616	2,459,046	-	491,457	117,664,361
Food Service	-	-	2,823,117	-	-	2,823,117
Student Transit	-	-	2,638,688	-	-	2,638,688
Total Education	<u>7,517,242</u>	<u>107,196,616</u>	<u>7,920,851</u>	<u>-</u>	<u>491,457</u>	<u>123,126,166</u>
Public Welfare and Recreation	237,867	5,817,566	2,193,198	4,526,567	123,987	12,899,185
Public Works:						
Public Services	-	164,833	6,077,135	127,640,923	861,788	134,744,679
Recycling	-	462,980	-	-	-	462,980
Total Public Works	<u>-</u>	<u>627,813</u>	<u>6,077,135</u>	<u>127,640,923</u>	<u>861,788</u>	<u>135,207,659</u>
Public Safety:						
Police	-	-	5,267,144	-	-	5,267,144
Fire	-	2,296,299	4,198,735	-	-	6,495,034
Civil Defense	-	-	326,635	-	-	326,635
Total Public Safety	<u>-</u>	<u>2,296,299</u>	<u>9,792,514</u>	<u>-</u>	<u>-</u>	<u>12,088,813</u>
City Service:						
Library	1,772,967	6,893,988	-	-	-	8,666,955
Community Development	-	-	30,525	-	-	30,525
MTP	-	-	8,250	-	-	8,250
Total City Service	<u>1,772,967</u>	<u>6,893,988</u>	<u>38,775</u>	<u>-</u>	<u>-</u>	<u>8,705,730</u>
Total Governmental Funds Capital Assets	<u>\$ 17,075,562</u>	<u>137,831,648</u>	<u>28,993,845</u>	<u>132,167,490</u>	<u>1,487,764</u>	<u>317,556,309</u>

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY¹
For the Fiscal Year Ended June 30, 2006

Function and Activity	Governmental Funds Capital Assets June 30, 2005	Additions	Deletions	Adjustments	Governmental Funds Capital Assets June 30, 2006
General Government:					
General Administration	24,058,732	250,694	1,022,627	209,918	23,496,717
Information Technology	2,009,480	22,559	-	-	2,032,039
Total General Government	26,068,212	273,253	1,022,627	209,918	25,528,756
Education:					
General Operations	116,799,924	864,437	-	-	117,664,361
Food Service	2,737,982	85,135	-	-	2,823,117
Student Transit	2,651,757	260,063	273,132	-	2,638,688
Total Education	122,189,663	1,209,635	273,132	-	123,126,166
Public Welfare and Recreation:					
Public Welfare and Recreation	12,837,015	1,240,607	1,178,437	-	12,899,185
Total Public Welfare	12,837,015	1,240,607	1,178,437	-	12,899,185
Public Works:					
Public Services	130,246,968	5,826,611	174,036	(1,154,864)	134,744,679
Recycling	462,980	-	-	-	462,980
Total Public Works	130,709,948	5,826,611	174,036	(1,154,864)	135,207,659
Public Safety:					
Police	4,940,941	345,067	18,864	-	5,267,144
Fire	6,401,744	93,290	-	-	6,495,034
Civil Defense	326,635	-	-	-	326,635
Total Public Safety	11,669,320	438,357	18,864	-	12,088,813
City Service:					
Library	8,666,955	-	-	-	8,666,955
Community Development	486,999	-	27,272	(429,202)	30,525
MTP	8,250	-	-	-	8,250
Total City Service	9,162,204	-	27,272	(429,202)	8,705,730
Total Governmental Funds Capital Assets	312,636,362	8,988,463	2,694,368	(1,374,148)	317,556,309

¹ This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

A prior period adjustment was reported in 2006 in the amount of \$1,374,148. Of the total prior period adjustment, \$1,163,964 is to adjust for expenditures previously recognized as construction in progress. The expenditures were incurred in an infrastructure project that will not result in any additions to infrastructure as defined by the Governmental Accounting Standards Board. An additional \$210,184 was to remove land that was sold in a prior year. Total governmental funds capital assets as originally reported in 2005 were \$312,636,362. The effect is to reduce the prior year total by \$1,374,148, resulting in total governmental funds capital assets as of June 30, 2005 of \$311,262,214.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
PRIMARY GOVERNMENT:							
General Fund:							
<i>Pass Through State of Tennessee:</i>							
10.675	Urban & Community Forestry Program	U.S. Dept. of Agriculture	(35,000)	63,000	28,000	-	-
16.523	Juvenile Accountability Incentive	TN Dept. of Agriculture					
	Block Grant / GG-05-11358-00	U. S. Dept. of Justice	-	1,233	1,233	-	-
97.042	Emergency Management Assistance	TN Commission on Children & Youth					
	Block Grant / GG-06	U. S. Dept. of Homeland Security		33,532	33,532	-	-
97.042	Emergency Management Assistance	TN Dept. of Military - TEMA					
	Z-05-025382-00	U.S. Dept. of Homeland Security	7,555	-	7,555	-	-
97.042	Emergency Management Assistance	TN Dept. of Military - TEMA					
	Z-06-032888-00	U.S. Dept. of Homeland Security		30,221	30,221	-	-
		TN Dept. of Military - TEMA	(27,445)	127,986	100,541	0	0
		<i>Sub-total Pass Through State of Tennessee</i>					
<i>Pass Through Other Organizations:</i>							
93.044	Title III-B, III-D, & III-E	U.S. Dept. of Health and Human Services					
	JOCITY-2006-HOOT-06	First TN Dev. District (from State of TN)	-	37,075	40,576	-	(3,501) *
93.044	Title III-B, III-D, & III-E	U.S. Dept. of Health and Human Services					
	JOCITY-2005-HOOT-04	First TN Dev. District (from State of TN)	(156)	156	-	-	-
		<i>Sub-total Pass Through Other Organizations</i>					
			(156)	37,231	40,576	0	(3,501)
			(27,601)	165,217	141,117	0	(3,501)
Total General Fund							
			(23,178)	194,084	195,319	-	(24,413) *
<i>School Federal Projects Fund:</i>							
<i>Pass Through State of Tennessee:</i>							
84.002	Adult Basic Education	Department of Labor and Workforce Development					
	Z-05-022234-00/Z-04-016681-00						
93.561	Families First	Department of Labor and Workforce Development					
	Z-05-022326-00		(1,732)	39,803	48,197	-	(10,126) *
84.048	Carl Perkins	U.S. Department of Education	(48,910)	207,690	182,441	-	(23,661) *

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
School Federal Projects Fund (Continued):							
Pass Through State of Tennessee:							
16.999	Drug-Free Communities Support Plan	Office of Juvenile Justice and Delinquency Prevention	(75,897)	179,240	168,424	-	(65,081) *
84.314	Even Start Literacy Z-03-013107 / Z-04-018577	U.S. Department of Education	(24,323)	92,340	82,000	-	(13,984) *
84.027	IDEA, Project	U.S. Department of Education	(205,207)	1,449,635	1,490,811	-	(246,383) *
84.027	Preschool Incentive, Project 2004.01	U.S. Department of Education	(1,266)	31,899	39,881	-	(9,248) *
84.010	Title I	U.S. Department of Education	(285,710)	1,616,671	1,343,656	-	(12,695) *
84.318X	Title II, Part D	U.S. Department of Education	(21,475)	53,854	40,630	-	(8,251) *
84.367A	Title II, Part A	U.S. Department of Education	(175,304)	403,410	420,689	-	(192,583) *
	Total Title II		(196,779)	457,264	461,319	0	(200,834)
84.298A	Title V, Innovative Programs	U.S. Department of Education	(5,767)	11,568	19,284	-	(13,483) *
84.186A	Title IV, Safe and Drug Free Schools and Communities	U.S. Department of Education	(18,516)	54,486	47,358	-	(11,388) *
	Total Title V		(24,283)	66,054	66,642	0	(24,871)
84.365A	Title III, ESL	U.S. Department of Education	(13,925)	13,925	-	-	-
	TN's First Frontier Teaching American History	U.S. Department of Education	-	102,461	102,461	-	-
Total School Federal Projects Fund			(876,300)	4,114,718	3,835,174	0	(596,756)

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
Special School Projects Fund:							
Pass Through State of Tennessee:							
93.645	Family Resources Z-03-012862	U.S. Department of Education	(7,373)	33,291	33,000	-	(7,082) *
84.287C	21st Century Community Learning Center Z-05-021725-00	U.S. Department of Education	(29,958)	78,342	93,735	-	(45,351) *
84.126	Vocational Rehab GG-04-10238-02	U.S. Department of Education	(12,517)	42,100	36,307	-	(6,724) *
94.004	Learn and Serve GG-05-11274-00	Corporation for National and Community Service	(3,186)	5,636	5,387	-	(2,937) *
84.196	McKinney Homeless Grant Z-03-012532 / Z-04-018283-00	U.S. Department of Education	(31,059)	66,966	45,829	-	(9,922) *
Total Special School Projects Fund					214,258	0	(72,016)
School Food Service:							
Pass Through State of Tennessee:							
10.533	National School Breakfast Program	U.S. Department of Agriculture	-	249,933	249,933	-	-
10.555	National School Lunch Program	U.S. Department of Agriculture	-	1,012,900	1,012,900	-	-
10.500	National School Snack Program	U.S. Department of Agriculture	-	45,226	45,226	-	-
Pass Through Northeast Tennessee Cooperative:							
10.550	USDA: Commodity Supplemental Feeding - Commodities Distributed	Tennessee Department of Agriculture	-	33,254	33,254	-	-
Total School Food Service					1,341,313	0	0
Transportation Planning Fund:							
Direct Programs:							
20.507	Project TN-90-X208	U.S. Department of Transportation	(10,736)	10,924	188	-	-
				Sec. 5307 - GG0410830	188	0	0
Sub-total Direct Programs					188	0	0

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
Transportation Planning Fund (Continued):							
Pass Through State of Tennessee:							
20.205	Highway Planning and Construction Z-06-030932	U.S. Department of Transportation TN Dept. of Transportation	-	54,236	80,924	-	(26,688) *
20.205	Highway Planning and Construction Z-05-024246	U.S. Department of Transportation TN Dept. of Transportation	(43,632)	43,632	-	-	-
20.514	Project TN-90-X012 - Planning/Research Sec. 5303 - GG0612306	U.S. Department of Transportation TN Dept. of Transportation	-	19,885	21,259	-	(1,374) *
20.205	Intelligent Vehicle Highway Systems Admin - ITS-9447 (402)	U.S. Department of Transportation TN Dept. of Transportation	(4,796)	9,279	6,049	-	(1,566) *
Total Transportation Planning Fund			Sub-total Pass Through State of Tennessee	127,032	108,232	0	(29,628)
			(59,164)	137,956	108,420	0	(29,628)
Police Grants Fund:							
Direct Programs:							
16.592	Local Law Enforcement Block Grants IX #2004-LB-BX-0103	U.S. Dept. of Justice	7,107	-	3,399	426	4,134 **
16.607	Bullet Proof Vest Program #2000-BU-BX-01007843	U.S. Dept. of Justice	-	-	13,052	-	(13,052) *
Pass Through State of Tennessee:			Sub-total Direct Programs	0	16,451	426	(8,918)
16.592	Local Law Enforcement Grant 2005-F188-TN-DOJ	U.S. Dept. of Justice TN Dept. of Justice	-	60,595	39,127	829	22,297 **
16.580	Byrne Grant-Alcohol/Crime #Z-99-088453-00	U.S. Dept. of Justice TN Dept. of Justice	(6,735)	120,458	126,580	-	(12,857) *
Pass Through Other Organizations:			Sub-total Pass Through State of Tennessee	120,458	126,580	0	(12,857)
16.609	Safe Neighborhoods I 2003-GP-CX-0177	U.S. Dept. of Justice City of Knoxville, TN	(1,457)	8,863	11,501	-	(4,095) *
16.609	Safe Neighborhoods II 2003-GP-CX-0177 (Phase II)	U.S. Dept. of Justice City of Knoxville, TN	(2,481)	2,481	-	-	-
Total Police Grants Fund			Sub-total Pass Through Other Organizations	11,344	11,501	0	(4,095)
			(3,566)	131,802	154,532	426	(25,870)

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
Community Development Fund:							
14.218	Community Development Block Grant B-MC-47-0008	U.S. Dept. of Housing & Urban Dev.	(106,416)	568,249	568,022	-	(106,189) *
	Total Community Development Fund		(106,416)	568,249	568,022	0	(106,189)
Capital Projects - Roads Fund:							
Pass Through State of Tennessee:							
20.205	Intelligent Vehicle Highway Systems ITS-9447 (402)	U.S. Department of Transportation TN Dept. of Transportation	(132,910)	132,910	-	-	-
	Total Capital Projects - Roads Fund		(132,910)	132,910	0	0	0
Capital Projects - Equipment Fund:							
Direct Programs:							
97.044	Assistance to Firefighters EMW-2004-FG-03983	U.S. Department of Homeland Security	(7,506)	7,506	-	-	-
97.044	Assistance to Firefighters 2005-62-0364RE-63000000-4101-R	U.S. Department of Homeland Security	-	114,833	114,833	-	-
97.044	Assistance to Firefighters EMW-2004-FP-02463	U.S. Department of Homeland Security	-	6,538	6,538	-	-
	Sub-total Direct Programs		(7,506)	128,877	121,371	0	0
Pass Through Other Organizations:							
97.055	Interoperable Communications Equip EMW-2003-FG-06365	U.S. Department of Homeland Security Washington County, TN (from State of TN)	(186,845)	186,845	-	-	-
	Sub-total Pass Through Other Organizations		(186,845)	186,845	0	0	0
	Total Capital Projects - Equipment Fund		(194,351)	315,722	121,371	0	0
Mass Transit Fund:							
Direct Programs:							
20.516	Job Access - Operating TN-37-X038 / GG-05-11327	U.S. Department of Transportation	(31,871)	103,703	98,792	-	(26,960) *
20.507	Project #TN-90-X216 - Operating GG-05-11334	U.S. Department of Transportation	(132,394)	132,394	-	-	-
20.507	Project #TN-90-X233 - Operating GG-06-12112-00	U.S. Department of Transportation	-	463,222	636,847	-	(173,625) *
	* Receivable ** Unused Revenue						

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
Mass Transit Fund:							
Direct Programs (Continued):							
20.507	Project #TN-90-X178 - Capital GG-01-08887	U.S. Department of Transportation	(5,706)	5,706	-	-	-
20.507	Project #TN-90-X233 - Capital GG-06-12083	U.S. Department of Transportation	-	74,359	103,573	-	(29,214) *
20.507	Project #TN-90-X196 - Capital GG-03-10422	U.S. Department of Transportation	-	164,202	164,202	-	-
20.507	Project #TN-90-X208 - Capital GG-04-10830	U.S. Department of Transportation	(601)	29,073	46,974	-	(18,502) *
20.507	Project #TN-90-X209-Capital GG-04-10830-01	U.S. Department of Transportation	-	-	1,132	-	(1,132) *
20.507	Project #TN-90-X210-Capital GG-0401-930-02	U.S. Department of Transportation	-	-	1,507	-	(1,507) *
Total Mass Transit Fund							
		<i>Sub-total Direct Programs</i>	(33,873) (204,445)	36,520 1,009,179	2,647 1,055,674	- 0	- (250,940)
			(204,445)	1,009,179	1,055,674	0	(250,940)
Water & Sewer Fund:							
Direct Programs:							
10.770	Water System Improvements Watauga Flats Project - Grant #9	U.S. Department of Agriculture	(108,039)	-	-	-	(108,039) *
10.770	Water System Improvements Limestone Cove Project - Grant #11	U.S. Department of Agriculture	(15,000) (123,039)	15,000 15,000	- 0	- 0	- (108,039)
Total Water & Sewer Fund							
			(851,492)	2,476,035	2,149,136	426	(524,167)
TOTAL FEDERAL GRANTS-PRIMARY GOVERNMENT							

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance 6/30/2006
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NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Johnson City, Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B: FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and used. The balance amounts represent inventory on hand. Non-monetary assistance has not been included in the financial statements.

* Receivable ** Unused Revenue

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance June 30, 2006
<u>General Fund:</u>							
<u>Direct Programs:</u>							
N/A	State Boarding of Prisoners	Tennessee Dept. of Correction	-	1,211,573	1,338,574	-	(127,001) *
N/A	Civil Defense	Tennessee Civil Defense	-	30,221	30,221	-	-
<u>Pass Through Other Organizations:</u>							
N/A	Juvenile Court State Supplement Z-06-020439-00	TN Commission on Children & Youth Washington County, TN	-	4,500	4,500	-	-
N/A	Senior Center Operations JOCITY-2006-HOOT-06	TN Commission on Aging First TN Development District	-	12,650	13,800	-	(1,150) *
N/A	Senior Center Operations JOCITY-2005-HOOT-04	TN Commission on Aging First TN Development District	(1,150)	1,150	22,078	-	(22,078) *
Total General Fund			(1,150)	18,300	40,378	0	(23,228)
			(1,150)	1,260,094	1,409,173	0	(150,229)
<u>Special School Projects Fund:</u>							
N/A	Safe Schools	Tennessee Department of Education	(5,143)	40,382	41,501	-	(6,262) *
N/A	LEAPS	Tennessee Department of Education	-	85,810	204,685	-	(118,875)
Total Special School Projects Fund			(5,143)	126,192	246,186	0	(125,137)
<u>Transportation Planning Fund:</u>							
N/A	Project TN-90-X012 - Planning/Research Sec. 5303 - GG0612306	Tennessee Department of Transportation	-	1,331	1,503	-	(172) *
N/A	Project TN-90-X208 Sec. 5307 - GG0410830	Tennessee Department of Transportation	(1,342)	1,530	188	-	-
N/A	Intelligent Vehicle Highway Systems Admin - ITS-9447 (402)	Tennessee Department of Transportation	(599)	1,159	756	-	(196) *
Total Transportation Planning Fund			(1,941)	4,020	2,447	0	(368)
<u>Community Development Fund:</u>							
N/A	Emergency Shelter Grant Z-05-020660-01	TN Dept. of Human Services	-	38,814	50,400	-	(11,586) *
N/A	Emergency Shelter Grant Z05020660	TN Dept. of Human Services	(23,497)	23,497	-	-	-
Total Community Development Fund			(23,497)	62,311	50,400	0	(11,586)

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance June 30, 2006
Motor Transport Fund:							
N/A	Underground Storage Tank Reimburse 99-125-11	TN Dept of Environment and Conservation	-	7,847	7,847	-	-
	Total Motor Transport Fund		0	7,847	7,847	0	0
Capital Projects - Roads Fund:							
N/A	Intelligent Vehicle Highway Systems ITS-9447 (402)	Tennessee Department of Transportation	(25,113)	25,113	-	-	-
	Total Capital Projects - Roads Fund		(25,113)	25,113	0	0	0
Mass Transit:							
N/A	Job Access - Operating TN-37-X038 / GG-05-11327	Tennessee Department of Transportation	(15,936)	51,851	49,395	-	(13,480) *
N/A	Project #TN-90-X216 - Operating GG-05-11334	Tennessee Department of Transportation	(52,974)	52,974	-	-	-
N/A	Project #TN-90-X233 - Operating GG-04-10507	Tennessee Department of Transportation	-	231,611	318,424	-	(86,813) *
N/A	Project #TN-90-X196 - Capital Option GG-03-10422	Tennessee Department of Transportation	-	20,526	20,526	-	-
N/A	Project #TN-90-X208 - Capital Option GG-04-10830	Tennessee Department of Transportation	(75)	3,634	5,872	-	(2,313) *
N/A	Project #TN-90-X209 - Capital GG-04-10830-01	Tennessee Department of Transportation	-	-	142	-	(142) *
N/A	Project #TN-90-X210 - Capital GG-04-10830-02	Tennessee Department of Transportation	-	-	188	-	(188) *
N/A	Project #TN-90-X216 - Capital GG-04-10830	Tennessee Department of Transportation	-	331	331	-	-
N/A	Project #TN-90-X233 - Capital GG-06-10830	Tennessee Department of Transportation	-	9,295	12,947	-	(3,652) *

* Receivable ** Unused Revenue

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2006

CFDA Number	Program Name/Grant Number	Grantor Agency / Pass Through Agency	Balance July 1, 2005	Cash Receipts	Expenditures	Adjustments	Balance June 30, 2006
Mass Transit (Continued):							
N/A	Project #TN-90-X216 - Capital GG-05-11604	Tennessee Department of Transportation	(4,234)	4,234	-	-	-
N/A	Project #90-UROP-S3-002 Capital GG-06-12112	Tennessee Department of Transportation	-	80,410	80,410	-	-
N/A	Project #90-901-9611 Capital GG-05-11927	Tennessee Department of Transportation	-	11,000	11,000	-	-
Total Mass Transit Fund			<u>(73,219)</u>	<u>465,866</u>	<u>499,235</u>	<u>0</u>	<u>(106,588)</u>
Johnson City Public Library:							
N/A	Tennessee Technology Grant Z-06-031321-00	State of Tennessee LSTA	8,195	6500	14695	-	-
Total Johnson City Public Library			<u>0</u>	<u>7,847</u>	<u>7,847</u>	<u>0</u>	<u>0</u>
TOTAL STATE GRANTS			<u>\$ (130,063)</u>	<u>\$ 1,959,290</u>	<u>\$ 2,223,135</u>	<u>\$ -</u>	<u>\$ (393,908)</u>

* Receivable ** Unused Revenue

See Independent Auditors' Report.

STATISTICAL SECTION

This part of the City of Johnson City, TN comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents:

Page

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

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Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

178

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

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Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

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Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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Other Statistical Schedules

These statistical schedules present information that is required to be presented by the State of Tennessee as supplementary information.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

CITY OF JOHNSON CITY, TENNESSEE
NET ASSETS BY COMPONENT
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(Unaudited)

	Fiscal Year			
	2002	2003	2004	2005
Governmental Activities				
Invested in Capital Assets, Net of Related Debt				
Restricted	\$ 65,828,986	69,634,762	68,066,836	69,035,062
Unrestricted	5,802,936	6,423,195	1,339,792	1,235,783
Total Governmental Activities Net Assets	\$ 8,812,085	12,932,492	27,064,737	38,368,429
	\$ 80,444,007	88,990,449	96,471,365	108,639,274
Business-Type Activities				
Invested in Capital Assets, Net of Related Debt				
Restricted	\$ 130,726,623	143,691,479	151,024,946	164,362,698
Unrestricted	3,789,232	1,546,874	595,205	501,521
Total Business-Type Activities Net Assets	\$ 8,694,385	7,817,725	9,307,410	8,347,415
	\$ 143,210,240	153,056,078	160,927,561	173,211,634
Primary Government				
Invested in Capital Assets, Net of Related Debt				
Restricted	\$ 196,555,609	213,326,241	219,091,782	233,397,760
Unrestricted	9,592,168	7,970,069	1,934,997	1,737,304
Total Primary Government Net Assets	\$ 17,506,470	20,750,217	36,372,147	46,715,844
	\$ 223,654,247	242,046,527	257,398,926	281,850,908

Information not available prior to 2002.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(Unaudited)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
<u>Governmental Activities:</u>					
General Government	\$ 11,404,279	10,381,350	7,249,216	7,518,525	7,102,418
Public Safety	17,178,099	17,322,254	17,676,316	18,254,020	19,537,869
Public Works	9,034,320	10,666,838	11,581,458	10,648,651	11,740,047
Public Welfare	4,735,469	5,640,206	5,485,982	6,211,203	6,309,383
City Services	1,343,376	1,361,193	2,090,545	1,818,017	1,789,975
Education	43,763,902	45,705,523	48,542,847	51,957,017	54,448,620
Interest on Long-Term Debt	5,789,746	5,208,576	4,713,367	4,760,654	3,040,993
Total Governmental Activities Expenses	93,249,191	96,285,940	97,339,731	101,168,087	103,969,305
<u>Business-Type Activities:</u>					
Water and Sewer	16,047,642	15,871,722	16,885,803	17,309,426	18,616,496
City Solid Waste	6,523,049	6,603,231	6,737,417	6,654,113	7,040,115
Regional Solid Waste	1,634,139	1,208,387	1,272,173	1,410,536	1,615,196
Johnson City Power Board	104,882,717	112,540,287	118,868,370	119,754,592	133,197,667
Public Building Authority	2,536,430	3,437,385	3,295,700	2,376,597	2,294,949
Mass Transit	1,796,611	1,757,068	1,934,480	1,901,831	2,193,038
Golf Courses	1,498,244	1,247,855	1,217,833	1,231,510	1,393,946
Total Business-Type Activities Expenses	134,918,832	142,665,935	150,211,776	150,638,605	166,351,407
Total Primary Government Expenses	\$ 228,168,023	238,951,875	247,551,507	251,806,692	270,320,712
Program Revenues					
<u>Governmental Activities:</u>					
Charges for Services:					
Public Safety	\$ 2,365,752	2,699,122	1,351,314	1,470,777	1,577,697
City Services	240,095	1,147,694	2,419,198	2,105,424	2,113,662

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
CHANGES IN NET ASSETS
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(Unaudited)

	Fiscal Year			
	2002	2003	2004	2005
				2006
General Revenues and Other Changes in Net Assets				
<u>Governmental Activities:</u>				
<u>Taxes:</u>				
Property Taxes	\$ 28,998,959	29,408,782	30,057,774	32,741,230
Sales Taxes	28,278,484	27,419,503	28,721,469	30,095,052
Other Taxes	6,853,737	6,777,017	6,477,387	6,867,324
Unrestricted Investment Earnings	433,546	371,760	270,478	737,108
Miscellaneous	2,173,707	1,802,171	1,530,007	1,366,945
Transfers	589,438	2,013,728	2,148,158	2,278,248
Total Governmental Activities	67,327,871	67,792,961	69,205,273	74,085,907
				33,591,476
				32,012,124
				7,510,307
				1,858,159
				174,525
				2,098,500
				77,245,091
<u>Business-Type Activities:</u>				
Unrestricted Investment Earnings	1,461,450	373,899	245,100	332,770
Miscellaneous	233,447	382,479	-	438,738
Transfers	(589,438)	(2,013,728)	(2,148,158)	(2,278,248)
Total Business-Type Activities	1,105,459	(1,257,350)	(1,903,058)	(1,506,740)
				(2,098,500)
				(733,905)
Total Primary Government	\$ 68,433,330	66,535,611	67,302,215	72,579,167
				76,511,186
Change in Net Assets				
Governmental Activities	\$ 5,787,894	8,816,245	7,626,219	10,931,999
Business-Type Activities	7,796,251	9,979,450	7,996,301	12,284,073
Total Primary Government	\$ 13,584,145	18,795,695	15,622,520	23,216,072
				12,826,194
				11,823,988
				24,650,182

Information not available prior to 2002.

Note: Amounts from prior years have been reclassified between categories from the original presentation in the relevant year CAFR to conform to the presentation of the current year CAFR.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
FOR THE FISCAL YEARS NOTED
(accrual basis of accounting)
(Unaudited)

Fiscal Year	Property Tax	In-Lieu of Tax	Local Sales Tax	State Sales Tax	Business Tax	Local Beer Tax	Local Liquor Tax	Hotel / Motel Tax	Franchise Tax	Telephone / Cable Tax	Other Taxes	Total
1997	20,805,132	2,649,715	18,788,038	-	766,796	1,519,039	259,068	745,998	305,252	271,947	-	46,110,985
1998	21,468,691	2,472,263	20,176,240	-	821,580	1,391,537	268,673	750,331	434,654	216,069	-	48,000,038
1999	22,009,570	3,036,073	21,448,956	-	891,788	1,471,798	285,122	755,519	368,711	361,033	-	50,628,570
2000	23,180,852	2,661,762	22,561,606	-	1,027,605	1,569,562	300,549	821,117	497,731	278,277	-	52,899,061
2001	24,620,392	3,516,368	23,314,961	-	1,070,085	1,629,893	297,675	852,688	456,646	467,264	-	56,225,972
2002	27,756,409	1,242,550	24,944,155	3,334,329	1,345,704	1,533,506	340,401	789,544	534,241	547,142	1,568,308	63,936,289
2003	28,189,818	1,218,964	24,072,977	3,346,526	1,311,531	1,654,319	359,470	771,638	313,280	556,094	1,810,685	63,605,302
2004	28,749,841	1,307,933	25,462,839	3,258,630	1,405,547	1,725,538	372,019	842,594	687,446	589,580	854,663	65,256,630
2005	31,429,944	1,311,286	26,712,881	3,382,171	1,534,947	1,805,940	361,364	885,521	516,393	577,627	1,185,532	69,703,606
2006	32,167,845	1,423,631	28,294,239	3,717,885	1,647,154	1,816,061	446,371	958,196	701,976	588,419	1,352,130	73,113,907

Information prior to 2002 is presented using the modified accrual basis of accounting.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year				
	1997	1998	1999	2000	2001
General Fund					
Reserved	\$ 89,827	101,944	139,027	193,003	419,344
Unreserved	5,775,512	6,572,797	7,373,043	5,804,552	2,024,867
Total General Fund	<u>\$ 5,865,339</u>	<u>6,674,741</u>	<u>7,512,070</u>	<u>5,997,555</u>	<u>2,444,211</u>
All Other Governmental Funds					
Reserved	\$ 2,279,527	1,861,415	2,180,499	1,872,980	1,681,294
Unreserved, reported in:					
Special Revenue Funds	2,468,220	3,430,397	790,735	718,608	1,581,365
Capital Project Funds	2,909,968	(11,124,965)	(13,558,062)	(10,613,448)	7,905,828
Total all Other Governmental Funds	<u>\$ 7,657,715</u>	<u>(5,833,153)</u>	<u>(10,586,828)</u>	<u>(8,021,860)</u>	<u>11,168,487</u>
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 506,239	715,889	2,239,857	2,739,904	3,139,975
Unreserved	5,343,621	5,949,014	8,585,184	11,085,672	14,209,712
Total General Fund	<u>\$ 5,849,860</u>	<u>6,664,903</u>	<u>10,825,041</u>	<u>13,825,576</u>	<u>17,349,687</u>
All Other Governmental Funds					
Reserved	\$ 1,968,692	2,049,980	2,405,370	2,926,613	3,279,288
Unreserved, reported in:					
Special Revenue Funds	4,585,218	6,391,322	6,838,620	7,359,144	7,100,574
Capital Project Funds	3,992,758	3,812,255	2,950,645	8,858,602	17,156,764
Total all Other Governmental Funds	<u>\$ 10,546,668</u>	<u>12,253,557</u>	<u>12,194,635</u>	<u>19,144,359</u>	<u>27,536,626</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues:										
Taxes	46,110,985	48,000,038	50,628,570	52,899,061	56,225,972	58,643,682	58,660,691	61,331,670	65,078,164	68,016,783
Licenses and Permits	600,634	784,837	714,383	873,542	720,622	817,347	693,800	907,393	988,999	1,141,199
Intergovernmental	24,482,159	27,914,065	27,517,424	29,114,849	36,011,746	30,817,336	31,661,321	32,455,612	35,091,817	35,370,088
Charges for Services	1,882,553	2,425,252	1,819,248	2,736,090	2,890,217	3,214,386	3,246,883	3,160,152	3,299,506	3,474,166
Sale of Property	74,137	1,858,456	3,875,865	392,735	10,525	412,631	416,597	66,467	317,641	1,490,276
Fines and Forfeitures	660,532	712,962	769,654	665,026	798,680	1,137,169	1,310,573	1,321,820	1,443,058	1,550,283
Use of Property	1,397,279	1,647,658	1,499,702	1,898,283	2,352,988	1,623,901	1,710,307	2,662,326	2,290,344	2,019,665
Investment Earnings	1,325,245	564,741	193,096	418,392	242,262	507,299	371,760	251,925	632,101	1,541,663
Miscellaneous	1,026,938	1,520,124	2,249,072	1,144,197	1,752,995	1,079,005	1,017,049	875,424	701,751	1,211,931
Total Revenues	77,560,462	85,428,133	89,267,014	90,142,175	101,006,007	98,252,756	99,088,981	103,032,789	109,843,381	115,816,054
Expenditures:										
General Government	7,410,786	7,838,085	8,571,586	8,976,747	10,017,967	10,863,994	9,940,946	9,436,485	9,593,656	9,848,863
Public Safety	11,922,440	13,141,228	13,908,841	15,319,127	17,263,941	16,451,487	16,900,884	17,371,848	17,924,968	19,207,764
Public Works	5,170,575	5,623,936	6,610,729	6,589,137	6,587,092	6,127,143	7,801,801	8,059,691	7,518,536	8,006,327
Public Welfare	6,999,669	8,116,117	6,301,191	6,033,120	5,561,905	5,790,202	5,387,930	5,215,580	5,894,087	6,048,271
City Services	-	-	-	2,028,975	2,267,819	1,015,110	1,107,267	1,893,464	1,618,348	1,574,399
Education	31,650,193	34,606,404	38,653,622	39,598,870	41,411,565	40,734,322	43,342,763	45,358,328	48,675,282	51,032,222
Miscellaneous	-	-	-	118,270	91,743	287,353	17,436	63,273	18,423	-
Capital Outlay	22,693,726	28,936,280	25,280,599	15,845,065	14,551,960	6,249,147	3,096,956	3,557,667	7,505,676	6,450,204
Debt Service:										
Principal	7,873,929	6,307,843	4,800,927	6,176,202	6,695,416	7,185,853	7,550,040	7,146,592	7,386,039	7,447,570
Interest and Fiscal Fees	33,826,573	2,937,201	5,002,397	6,000,451	6,397,812	5,819,175	5,244,117	4,713,367	4,598,310	5,611,096
Other Charges	233,723	163,347	486,733	126,981	330,819	9,410	-	-	266,066	304,043
Total Expenditures	127,781,614	107,670,441	109,616,625	106,812,945	111,178,039	100,533,196	100,390,140	102,816,295	110,999,391	115,530,759
Excess of revenues over (under) expenditures	(50,221,152)	(22,242,308)	(20,349,611)	(16,670,770)	(10,172,032)	(2,280,440)	(1,301,159)	216,494	(1,156,010)	285,295

(Continued)

CITY OF JOHNSON CITY, TENNESSEE
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Unaudited)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other Financing Sources (Uses):										
Transfers (Net)	(1,414,946)	(1,466,823)	(1,743,080)	(1,456,461)	(1,497,235)	1,868,307	2,013,728	2,148,158	2,254,158	2,087,000
Loss on Investments	-	2,238,050	-	-	-	-	-	-	-	-
Notes Issued	-	-	-	-	-	-	-	-	-	-
Refunding Bonds Issued	-	-	-	-	-	-	-	-	-	-
Refunding Bond Payments	-	-	1,440,040	-	-	-	-	-	11,460,900	6,245,425
Bond Issued	33,292,803	8,500,000	17,300,000	18,700,000	27,100,000	921,038	2,090,751	-	-	(5,890,000)
Bond Proceeds from Washington County	-	-	-	-	-	-	-	-	8,249,610	7,000,000
Refunding Bonds Premium	-	-	203,310	-	-	-	-	-	-	2,152,800
Payments to Refunded	-	-	-	-	-	-	-	-	58,861	-
Bond Escrow Agent	-	-	(1,357,300)	-	-	-	-	-	(11,380,809)	-
Insurance Recovery	-	-	-	-	-	-	-	-	71,623	-
Capital Leases	-	-	-	-	-	-	-	403,802	-	-
Total Other Financing Sources (Uses)	31,877,857	9,271,227	15,842,970	17,243,539	25,602,765	2,789,345	4,104,479	2,551,960	10,714,343	11,595,225
Net Change in Fund Balances	(18,343,295)	(12,971,081)	(4,506,641)	572,769	15,430,733	508,905	2,803,320	2,768,454	9,558,333	11,880,520
Debt Service as a Percentage of Noncapital Expenditures	39.9%	11.9%	12.2%	13.5%	13.9%	13.8%	13.2%	11.9%	11.8%	12.3%

Note: Amounts from prior years have been reclassified between categories from the original presentation in the relevant year CAPR to conform to the presentation of the current year CAPR.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	Real Property			Personal Property	Public Utility	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Tax Year	Residential & Farm Property	Industrial & Commercial Property						
1997	1996	320,015,475	299,378,800	96,961,618	33,546,743	749,902,636	2.19	2,351,759,580	31.89%
1998	1997	341,789,613	313,671,160	99,065,539	33,546,743	788,073,055	2.19	2,548,416,781	30.92%
1999	1998	357,275,562	345,261,445	99,087,954	33,547,784	835,172,745	2.19	2,544,678,373	32.82%
2000	1999	422,327,350	390,315,160	98,847,526	33,999,226	945,489,262	1.87	3,056,405,828	30.93%
2001	2000	435,578,550	408,159,132	112,630,088	36,911,863	993,279,633	1.87	3,159,332,578	31.44%
2002	2001	460,694,975	406,847,400	117,302,952	43,817,031	1,028,662,358	2.15	3,247,881,063	31.67%
2003	2002	473,877,275	417,779,120	116,420,340	38,519,170	1,046,595,905	2.15	3,328,062,244	31.45%
2004	2003	489,975,800	419,548,720	110,603,453	40,775,100	1,060,903,073	1.93	3,406,701,422	31.14%
2005	2004	586,366,747	512,287,398	115,283,797	48,675,887	1,262,613,829	1.93	4,011,552,024	31.47%
2006	2005	608,631,775	519,232,096	113,193,113	44,989,552	1,286,046,536	1.93	4,097,250,413	31.39%

Source: City of Johnson City Finance Department

Note: Tax rates are per \$100 of assessed value

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
PROPERTY TAX RATES (per \$100 assessed value)
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	Overlapping Rates			County Rates		
	Washington County	Carter County	Sullivan County	Washington County	Carter County	Sullivan County
1997	2.19	2.37	2.19	2.22	2.74	2.58
1998	2.19	1.94	1.94	2.22	2.46	2.58
1999	1.87	1.87	2.05	1.93	2.46	2.58
2000	1.87	1.87	2.05	1.93	2.46	2.63
2001	2.15	2.04	2.04	1.93	2.22	2.35
2002	2.15	2.04	2.04	1.93	2.22	2.35
2003	2.15	2.04	2.04	1.93	2.22	2.35
2004	1.93	2.04	2.04	1.87	2.56	2.67
2005	1.93	2.18	1.95	1.87	2.56	2.53
2006	1.93	2.04	1.80	2.00	2.10	2.53

Source: City of Johnson City Finance Department

Note: Overlapping rates are those of county governments that apply to property owners within the City of Johnson City.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
FOR THE FISCAL YEARS NOTED
(Unaudited)

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
United Telephone SE Inc	\$ 22,924,180	1	2.0%	21,774,268	1	3.1%
Allied Signal, Inc.	-	-	0.0%	13,330,573	3	1.9%
Johnson City Venture LLC (Mall)	18,387,520	2	1.6%	-	-	0.0%
C/S VII Associates Limit (Mall)	-	-	0.0%	14,671,160	2	2.1%
Robert Bosch Corporation	9,201,105	5	0.8%	-	-	0.0%
John A Pritchett, Jr	10,591,725	3	0.9%	-	-	0.0%
Mountain States Properties	9,685,720	4	0.8%	-	-	0.0%
Siemens Industrial Automation Inc.	-	-	0.0%	13,116,182	4	1.8%
American Water Heater Company	8,432,013	6	0.7%	3,790,418	10	0.5%
Atmos Energy Corporation	8,427,745	7	0.7%	-	-	0.0%
New Johnson City Crossing	6,967,155	8	0.6%	-	-	0.0%
Superior Industries Int'l	6,080,034	9	0.5%	5,689,883	5	0.8%
North Side Hospital Inc	-	-	0.0%	5,532,145	6	0.8%
United Cities Gas Company	-	-	0.0%	5,214,458	7	0.7%
Wiggins WB JR	5,058,800	10	0.4%	4,249,240	9	0.6%
Burlington Industries	-	-	0.0%	4,288,464	8	0.6%
Totals	<u>\$ 105,755,997</u>		<u>9.0%</u>	<u>91,656,791</u>		<u>12.9%</u>

Total Taxable Assessed Value:

FYE 2006 (Tax Year 2005) 1,175,524,340

FYE 1997 (Tax Year 1996) 709,928,530

Source: City of Johnson City Finance Department

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	Tax Levy for Fiscal Year	Subsequent Adjustments to Levy	Collected within the Fiscal Year of the Levy			Collections in Subsequent Years			Total Collections to Date		Uncollected Delinquent Taxes
			Adjusted Tax Levy	Amount	Percentage of Adjusted Levy	Amount	Percentage of Adjusted Levy	Years	Amount	Percentage of Adjusted Levy	
1997	16,388,856	(264,413)	16,124,443	15,455,894	95.85%	662,400	99.96%	662,400	16,118,294	99.96%	6,149
1998	17,026,668	(186,566)	16,840,102	16,136,224	95.82%	701,579	99.99%	701,579	16,837,803	99.99%	2,299
1999	17,553,810	(227,443)	17,326,367	16,292,409	94.03%	1,024,070	99.94%	1,024,070	17,316,479	99.94%	9,888
2000	17,970,361	(11,072)	17,959,289	16,944,556	94.35%	1,008,003	99.96%	1,008,003	17,952,559	99.96%	6,730
2001	18,558,384	(44,575)	18,513,809	17,756,760	95.91%	727,323	99.84%	727,323	18,484,083	99.84%	29,726
2002	21,117,931	874,982	21,992,913	21,108,710	95.98%	850,096	99.84%	850,096	21,958,806	99.84%	34,107
2003	22,071,665	215,049	22,286,714	21,613,078	96.98%	600,380	99.67%	600,380	22,213,458	99.67%	73,256
2004	22,723,186	37,367	22,760,553	22,019,690	96.74%	607,616	99.41%	607,616	22,627,306	99.41%	133,247
2005	24,282,470	(49,021)	24,233,449	23,694,840	97.78%	355,639	99.24%	355,639	24,050,479	99.24%	182,970
2006	23,967,796	392,286	24,360,082	23,677,242	97.20%	-	97.20%	-	23,677,242	97.20%	682,840

Source: City of Johnson City Finance Department

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General		Notes Payable	Capital Lease	General		Revenue Bonds	Notes Payable			
	Obligation Bonds				Obligation Bonds						
1997	88,579,949		892,500	-	6,534,727		47,803,005	119,500	143,929,681	13.00%	2,736
1998	92,999,036		2,650,950	-	6,069,030		43,341,998	95,600	145,156,614	12.59%	2,747
1999	108,620,300		2,419,259	-	23,061,278		36,724,998	71,700	170,897,535	14.73%	3,208
2000	113,403,739		2,234,517	-	39,187,239		64,342,998	47,800	219,216,293	17.34%	3,952
2001	134,077,206		1,965,667	-	47,452,907		63,110,997	23,900	246,630,677	18.60%	4,438
2002	128,094,467		1,683,591	-	46,162,236		58,589,000	-	234,529,294	17.24%	4,214
2003	120,825,645		1,402,373	-	44,125,074		54,436,000	448,936	221,238,028	15.96%	3,972
2004	113,974,350		1,107,076	296,744	41,980,980		50,813,000	823,787	208,995,937	14.18%	3,628
2005	114,752,367		1,517,241	201,735	39,624,138		47,220,000	939,804	204,255,285	12.99%	3,416
2006	114,641,644		1,229,264	102,875	68,641,159		43,560,000	929,286	229,104,228	13.71%	3,678

Note:

-Details regarding the City's outstanding debt can be found in the notes to the financial statements.

-See the Schedule of Demographic and Economic Statistics for personal income and population data.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Obligation Bonds	Percentage of Estimated Actual Taxable Value of Property	Per Capita
1997	88,579,949	(1,939,509)	86,640,440	3.68%	1,647
1998	92,999,036	(1,607,985)	91,391,051	3.59%	1,729
1999	108,620,300	(1,788,218)	106,832,082	4.20%	2,005
2000	113,403,739	(1,601,932)	111,801,807	3.66%	2,016
2001	134,077,206	(1,371,745)	132,705,461	4.20%	2,388
2002	128,094,467	(1,287,353)	126,807,114	3.90%	2,279
2003	120,825,645	(1,212,470)	119,613,175	3.59%	2,147
2004	113,974,350	(1,141,370)	112,832,980	3.31%	1,959
2005	114,752,367	(1,036,938)	113,715,429	2.83%	1,902
2006	114,641,644	(905,407)	113,736,237	2.78%	1,826

Note:

- Details regarding the City's outstanding debt can be found in the notes to the financial statements.
- See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.
- See the Schedule of Demographic and Economic Statistics for personal income and population data.

CITY OF JOHNSON CITY, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2006
(Unaudited)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt Repaid with Property Taxes:			
Carter County	\$ 21,843,988	2.00%	436,880
Sullivan County	52,620,000	0.04%	21,048
Washington County	30,790,000	62.00%	19,089,800
<i>Subtotal, Overlapping Debt</i>	<u>105,253,988</u>		<u>19,547,728</u>
City of Johnson City Direct Debt	<u>114,641,644</u>	100.00%	<u>114,641,644</u>
Total Direct and Overlapping Debt	<u>\$219,895,632</u>		<u>134,189,372</u>

Sources:

- City of Johnson City Finance Department
- County Governments

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Johnson City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF JOHNSON CITY, TENNESSEE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Unaudited)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Limit	74,990,264	78,807,306	83,517,275	94,548,926	99,327,963	102,866,236	104,659,591	106,090,307	126,261,383	128,604,654
Total Net Debt Applicable to Limit	52,717,146	57,186,233	65,777,497	71,035,936	92,264,403	86,976,664	80,397,842	74,396,547	76,189,564	77,278,841
Legal Debt Margin	22,273,118	21,621,073	17,739,778	23,512,990	7,063,560	15,889,572	24,261,749	31,693,760	50,071,819	51,325,813
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	70.30%	72.56%	78.76%	75.13%	92.89%	84.55%	76.82%	70.13%	60.34%	60.09%

Legal Debt Margin Calculation for Fiscal Year 2006	
Total Taxable Assessed Value	\$ 1,286,046,536
Debt Limit (10% of Taxable Assessed Value)	128,604,654
Debt Applicable to Limit:	
General Obligation Debt	114,641,644
Less: Sales Tax Revenue Bonds	(37,362,803)
Total Net Debt Applicable to Limit	77,278,841
Legal Debt Margin	\$ 51,325,813

Note: Under the City of Johnson City's Charter, the City's outstanding general obligation debt should not exceed 10 percent of total taxable assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Operating Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
Water and Sewer Revenue Bonds:							
1997	17,909,167	10,535,284	7,373,883	4,180,001	2,466,725	6,646,726	1.11
1998	18,469,792	10,861,251	7,608,541	4,230,977	2,261,970	6,492,947	1.17
1999	19,163,077	11,321,777	7,841,300	3,992,000	1,860,886	5,852,886	1.34
2000	18,829,366	10,352,608	8,476,758	3,867,000	1,578,335	5,445,335	1.56
2001	18,262,236	11,475,442	6,786,794	2,857,001	1,709,359	4,566,360	1.49
2002	17,706,771	10,555,308	7,151,463	3,166,997	1,464,644	4,631,641	1.54
2003	19,626,789	10,920,221	8,706,568	2,733,000	1,335,810	4,068,810	2.14
2004	19,690,045	11,501,842	8,188,203	2,293,000	1,203,915	3,496,915	2.34
2005	20,288,469	11,952,939	8,335,530	2,483,000	1,109,675	3,592,675	2.32
2006	21,772,092	16,415,529	5,356,563	2,545,000	1,052,982	3,597,982	1.49
City Solid Waste Revenue Bonds:							
1997	5,387,537	4,536,954	850,583	100,000	97,153	197,153	4.31
1998	5,166,150	5,990,444	(824,294)	105,000	92,553	197,553	(4.17)
1999	6,018,747	7,415,623	(1,396,876)	110,000	87,513	197,513	(7.07)
2000	6,699,036	6,442,559	256,477	115,000	82,068	197,068	1.30
2001	6,212,455	6,748,753	(536,298)	120,000	99,454	219,454	(2.44)
2002	6,635,333	5,543,526	1,091,807	245,000	95,080	340,080	3.21
2003	7,468,291	5,909,997	1,558,294	255,000	82,505	337,505	4.62
2004	7,897,479	6,077,126	1,820,353	275,000	67,504	342,504	5.31
2005	7,917,942	5,996,550	1,921,392	285,000	53,082	338,082	5.68
2006	8,257,612	6,791,872	1,465,740	160,000	40,020	200,020	7.33
Regional Solid Waste Revenue Bonds:							
1997	1,289,330	982,382	306,948	115,000	38,745	153,745	2.00
1998	1,323,569	1,111,962	211,607	125,000	33,523	158,523	1.33
1999	1,374,116	1,040,554	333,562	125,000	29,271	154,271	2.16
2000	1,403,026	1,222,182	180,844	135,000	15,625	150,625	1.20
2001	1,497,806	1,386,409	111,397	140,000	18,301	158,301	0.70
2002	1,578,419	1,372,532	205,887	150,000	10,144	160,144	1.29
2003	1,728,755	1,072,280	656,475	155,000	3,643	158,643	4.14
2004	1,809,069	1,152,122	656,947	N/A	N/A	N/A	N/A
2005	1,892,638	1,290,443	602,195	N/A	N/A	N/A	N/A
2006	2,001,125	1,608,350	392,775	N/A	N/A	N/A	N/A
Golf Course Revenue Bonds:							
1997	558,198	438,423	119,775	-	168,739	168,739	0.71
1998	565,706	458,236	107,470	-	169,263	169,263	0.63
1999	533,380	482,182	51,198	-	38,922	38,922	1.32
2000	552,872	457,620	95,252	110,000	30,426	140,426	0.68
2001	498,628	491,734	6,894	115,000	24,783	139,783	0.05
2002	538,747	507,895	30,852	120,000	19,650	139,650	0.22
2003	533,449	467,528	65,921	130,000	13,650	143,650	0.46
2004	501,343	476,022	25,321	135,000	6,435	141,435	0.18
2005	493,298	497,651	(4,353)	N/A	N/A	N/A	N/A
2006	991,748	1,188,143	(196,395)	N/A	N/A	N/A	N/A

CITY OF JOHNSON CITY, TENNESSEE
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Operating Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest	Total	Coverage
Johnson City Power Board Revenue Bonds:							
1997	92,345,831	86,884,677	5,461,154	N/A	N/A	N/A	N/A
1998	99,521,265	94,074,802	5,446,463	285,000	1,099,943	1,384,943	3.93
1999	109,464,372	99,026,356	10,438,016	305,000	1,557,061	1,862,061	5.61
2000	111,275,891	100,556,971	10,718,920	765,000	1,481,409	2,246,409	4.77
2001	116,106,756	104,328,939	11,777,817	800,000	936,979	1,736,979	6.78
2002	111,054,311	99,973,365	11,080,946	840,000	1,474,301	2,314,301	4.79
2003	118,634,679	107,479,291	11,155,388	880,000	1,433,510	2,313,510	4.82
2004	124,669,151	113,013,470	11,655,681	929,121	1,384,892	2,314,013	5.04
2005	128,314,735	113,411,634	14,903,101	980,000	1,330,569	2,310,569	6.45
2006	141,680,530	131,546,144	10,134,386	1,035,000	1,276,389	2,311,389	4.38

Note:

- Details regarding the City's outstanding debt can be found in the notes to the financial statements.
- Operating Expenses do not include interest
- Prior to 2006, the Golf Course Revenue Bonds were maintained in the Buffalo Valley Golf Course Fund prior to this funds combination with the City's other golf course to create the Golf Course Fund.

CITY OF JOHNSON CITY, TENNESSEE
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year Ended June 30	Population	Personal Income	Per Capita Personal Income ¹	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate ¹
1996	52,552	1,074,846,056	20,453	34.4	12.85	6,863	3.8%
1997	52,604	1,107,524,616	21,054	34.4	12.85	6,689	4.2%
1998	52,851	1,152,944,565	21,815	34.4	12.85	6,546	3.3%
1999	53,272	1,160,530,520	21,785	34.4	12.85	6,677	3.6%
2000	55,469	1,263,916,634	22,786	36.9	13.44	6,732	4.0%
2001	55,570	1,325,844,630	23,859	36.9	13.44	6,655	4.7%
2002	55,650	1,360,030,350	24,439	36.9	13.44	6,805	5.3%
2003	55,700	1,386,150,200	24,886	36.9	13.44	6,778	5.1%
2004	57,600	1,473,580,800	25,583	36.9	13.44	6,778	5.0%
2005	59,800	1,572,680,200	26,299	36.9	13.44	6,766	5.6%
2006	62,289	1,671,027,003	26,827	39.7	13.44	6,998	4.9%

Sources:

- Johnson City Economic Development Board
- Tennessee Department of Labor & Workforce Development
- State of the Cities Data Systems (SOCDS-HUD)
- Johnson City School System
- Johnson City Chamber of Commerce

¹Data presented is for Washington County, TN

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
PRINCIPAL EMPLOYERS
FOR THE FISCAL YEARS NOTED
(Unaudited)

Employer	2006			2003*		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Mountain States Health Alliance	5,178	1	9.9%	3,541	1	6.3%
East Tennessee State University	2,105	2	4.0%	2,012	2	3.6%
CITI Cards	2,000	3	3.8%	1,817	3	3.3%
James H. Quillen VA Medical Center	1,265	4	2.4%	1,259	4	2.3%
Washington County School System	1,225	5	2.3%	1,150	6	2.1%
American Water Heater Co	1,190	6	2.3%	1,200	5	2.2%
Johnson City School System	925	7	1.8%	920	7	1.6%
Cingular Wireless	895	8	1.7%	805	10	1.4%
City of Johnson City	843	9	1.6%	824	8	1.5%
Advanced Call Center	600	10	1.1%	N/A	-	-
Siemens Energy & Automation, Inc.	N/A	-	-	730	9	1.3%
	16,226		30.9%	14,258		25.6%

Total Washington County Employment:

FYE 2005	52,190
FYE 2003	55,800

Sources:

- Johnson City Economic Development Board
- Tennessee Department of Labor & Workforce Development
- First Tennessee Development District

*Principal Employer information is not available prior to FY 2003

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
FOR THE FISCAL YEARS NOTED
(Unaudited)

Function	Fiscal Year					
	2001	2002	2003	2004	2005	2006
General Government	143	135	125	120	116	102
Public Safety	319	310	295	294	294	310
Public Works	92	86	91	90	89	71
Public Welfare	90	85	74	74	74	74
City Services	18	10	13	10	10	52
Education	850	857	860	827	829	832
Water and Sewer	160	139	142	145	146	151
Solid Waste	62	56	49	47	45	45
Mass Transit	59	64	59	57	55	39
Golf Courses	43	36	36	36	36	10
	<u>1,836</u>	<u>1,778</u>	<u>1,744</u>	<u>1,700</u>	<u>1,694</u>	<u>1,686</u>

Sources:

- City of Johnson City Finance Department
- Johnson City School System

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
OPERATING INDICATORS BY FUNCTION
FOR THE FISCAL YEARS NOTED
(Unaudited)

Function	Fiscal Year		
	2004	2005	2006
Public Safety:			
Student Transportation:			
Miles	398,550	388,700	399,255
Passengers	891,123	878,450	961,496
Police:			
Physical Arrests	5,433	7,126	7,457
Parking Citations	N/A	3,678	3,195
Traffic Citations	14,986	19,538	23,092
Fire:			
Calls Answered	3,190	3,006	2,912
Inspections	1,225	1,788	1,802
Public Works:			
Potholes Repaired	N/A	695	211
Streets Swept (linear miles)	1,450	2,264	2,484
Traffic Signals Repaired/Replaced	N/A	372	371
Snow & Ice Control Treatment (lane miles)	N/A	3,000	2,200
Public Welfare:			
Parks and Recreation:			
Pool Admissions	N/A	50,584	51,710
Youth Basketball Participants	1,260	1,234	1,128
Youth Soccer Participants	1,955	1,906	1,895
Youth Softball & Tee-ball Participants	524	516	487
Tennis Instruction Participants	194	200	216
Adult Basketball Teams	54	44	30
Adult Softball Teams	132	131	81
Senior Citizens:			
Programs/Events Attendance	159,256	161,094	142,054
City Services:			
Freedom Hall:			
Events	N/A	69	61
Water and Sewer:			
Average Daily Consumption (Water)	14.21 mgd	14.40 mgd	14.34 mgd
Maximum Daily Capacity (Water)	28.00 mgd	28.00 mgd	28.00 mgd
Water Taps	848	783	792
Sewer Taps	580	618	628
Solid Waste:			
Refuse Collected (Tons)	95,895	95,002	95,372
Recyclables Sold (Tons)	4,401	4,395	4,456
Mulch Sold as Boiler Fuel (Tons)	12,533	13,365	10,004
Leaves Collected (Tons)	3,326	3,447	3,643
Mass Transit:			
Passenger Miles	1,387,312	1,460,394	1,681,266
Golf Courses:			
18-Hole Rounds Played	48,415	55,000	47,775

Source: Various City Departments

Note: Operating Indicators are not available for the general government function.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE FISCAL YEARS NOTED
(Unaudited)

Function	Fiscal Year		
	2004	2005	2006
Public Safety:			
Student Transportation:			
Buses	51	54	52
Police:			
Stations	1	1	1
Patrol Units	154	163	166
Motorcycle Units	3	3	3
Fire:			
Stations	8	8	8
Fire Trucks/Rescue Units	27	26	27
Public Works:			
Streets (Miles)	483.1	488.9	496.89
Traffic Signals	84	85	86
Public Welfare:			
Parks and Recreation:			
Park Sites	19	19	19
Park Acreage	1,081	1,081	1,081
Swimming Pools	2	2	2
Tennis Courts	17	17	17
Community/Recreation Centers	4	4	4
Senior Citizens:			
Senior Centers	1	1	1
School System:			
Elementary Schools	8	8	8
Secondary Schools	2	2	2
Water and Sewer:			
Water Mains (Miles)	840.7	854.5	871.3
Fire Hydrants	2,622	2,639	2,828
Sanitary Sewers (Miles)	474.3	474.8	505.3
Manholes	10,743	10,766	11,452
Solid Waste:			
Collection Trucks	46	48	51
Golf Courses	2	2	2
Mass Transit:			
Buses/Trolleys/Vans	33	35	43

Source: Various City Departments

Note:

-Capital Asset Indicators are not available for the general government function.

-Does not include leased property.

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF INTERFUND TRANSFERS
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Transfers In:		Special Revenue Funds										Capital Projects Funds					Enterprise Funds				Internal Service Funds	
General Fund	General Purpose School	Trans- portation Planning	Police Grant Fund	Freedom Hall	School Federal Projects	Special School Projects	School Site Based Fund	Debt Service Fund	Parks	Equipment	Infrastructure	Public Facilities	Med Tech Park	Water and Sewer	City Solid Waste	Golf Fund	Mass Transit	Motor Transport				
General Fund	\$ -	7,832,675	36,500	-	213,240	-	4,750	-	-	1,756,294	135,534	563,551	240,162	-	-	325,000	404,467	11,500				
Special Revenue Funds:																						
General Purpose																						
School Fund	-	-	-	-	35,342	-	745,565	968,746	-	-	-	-	-	-	-	-	-	-				
Debt Service	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Drug Fund	2,808	-	11,287	-	-	-	-	-	-	13,801	-	-	-	-	-	-	-	-				
School Federal Projects	-	6,739	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Public Aid	10,582	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Capital Projects:																						
Infrastructure	-	-	-	-	-	-	-	-	11,537	-	-	51,024	-	-	-	-	-	-				
Enterprise Funds:																						
Johnson City Power Board	2,397,967	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Water and Sewer	430,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Regional Solid Waste	-	-	-	-	-	-	-	-	-	-	-	-	-	18,200	115,800	-	-	-				
City Solid Waste	-	-	-	-	-	-	-	-	-	-	-	-	-	48,100	-	-	-	-				
Totals	\$ 2,885,357	7,839,414	36,500	11,287	213,240	35,342	4,750	745,565	968,746	11,537	1,770,095	135,534	614,575	240,162	66,300	115,800	325,000	404,467	11,500			

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS -
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2006
(Unaudited)

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2007	\$ 12,746,512	11,339,051	24,085,563
2008	11,764,433	11,142,147	22,906,580
2009	11,305,751	10,728,811	22,034,562
2010	10,904,686	10,352,389	21,257,075
2011	11,555,713	10,052,869	21,608,582
2012	12,074,837	9,649,400	21,724,237
2013	12,700,870	9,245,141	21,946,011
2014	14,720,000	7,446,191	22,166,191
2015	15,685,000	6,693,320	22,378,320
2016	16,120,000	5,887,229	22,007,229
2017	14,410,000	5,045,905	19,455,905
2018	14,460,000	4,280,439	18,740,439
2019	13,090,000	3,516,958	16,606,958
2020	13,810,000	2,819,905	16,629,905
2021	8,720,000	2,081,785	10,801,785
2022	7,890,000	1,623,058	9,513,058
2023	6,185,000	1,220,944	7,405,944
2024	3,200,000	942,071	4,142,071
2025	3,325,000	778,689	4,103,689
2026	2,325,000	608,750	2,933,750
2027	1,775,000	492,500	2,267,500
2028	1,875,000	403,750	2,278,750
2029	1,950,000	310,000	2,260,000
2030	2,050,000	212,500	2,262,500
2031	2,200,000	110,000	2,310,000
	<u>\$ 226,842,802</u>	<u>116,983,802</u>	<u>343,826,604</u>

The total reflected on the statement of net assets has been reduced by deferred debt refunding costs of \$1,871,745. This schedule does not include \$12,000,000 of bond anticipation notes issued by the Johnson City Power Board.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF NOTE PRINCIPAL AND INTEREST REQUIREMENTS -
ALL FUNDS - PRIMARY GOVERNMENT
June 30, 2006
(Unaudited)

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2007	312,527	91,815	404,342
2008	326,033	77,446	403,479
2009	341,239	62,307	403,546
2010	103,599	49,639	153,238
2011	108,176	45,922	154,098
2012	111,723	42,098	153,821
2013	14,409	38,031	52,440
2014	15,067	37,373	52,440
2015	15,758	36,682	52,440
2016	16,429	36,011	52,440
2017	17,229	35,211	52,440
2018	18,020	34,420	52,440
2019	18,845	33,595	52,440
2020	19,659	32,781	52,440
2021	20,606	31,834	52,440
2022	21,551	30,889	52,440
2023	22,535	29,905	52,440
2024	23,529	28,911	52,440
2025	24,646	27,794	52,440
2026	25,775	26,665	52,440
2027	26,955	25,485	52,440
2028	28,156	24,284	52,440
2029	29,481	22,959	52,440
2030	30,830	21,610	52,440
2031	32,245	20,195	52,440
2032	33,695	18,745	52,440
2033	35,264	17,176	52,440
2034	36,882	15,558	52,440
2035	38,570	13,870	52,440
2036	40,319	12,121	52,440
2037	42,184	10,256	52,440
2038	44,117	8,323	52,440
2039	46,141	6,299	52,440
2040	48,246	4,194	52,440
2041	43,058	2,012	45,070
2042	20,416	586	21,002
2043	4,636	78	4,714
	<u>\$ 2,158,550</u>	<u>1,053,080</u>	<u>3,211,630</u>

See Independent Auditors' Report.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF UNCOLLECTED DELINQUENT TAXES
June 30, 2006
(Unaudited)

<u>Tax Year</u>	<u>Uncollected Delinquent Taxes June 30, 2006</u>
2004	\$ 182,970
2003	133,247
2002	73,256
2001	34,107
2000	29,726
1999	6,730
1998	9,888
1997	2,299
1996	6,148
Total	<u>\$ 478,371</u>

Uncollected Delinquent Taxes Filed in Chancery Court:

As of April 1, 2006 all of the above delinquent taxes for 1996 through 2004 have been filed by the City Attorney with the Washington County Chancery Court.

CITY OF JOHNSON CITY, TENNESSEE
UTILITY RATE STRUCTURE & NUMBER OF CUSTOMERS

June 30, 2006

(Unaudited)

<u>Water Rates:</u>	<u>Inside City</u>	<u>Outside City</u>
Base	3.04	6.08
0 - 20,000 Gallons Used	2.38 / 1,000 gal.	4.76 / 1,000 gal.
20,001 - 190,000 Gallons Used	1.90 / 1,000 gal.	3.81 / 1,000 gal.
190,000 - 490,000 Gallons Used	1.71 / 1,000 gal.	3.43 / 1,000 gal.
Over 490,000 Gallons Used	1.55 / 1,000 gal.	3.09 / 1,000 gal.

<u>Sewer Rates:</u>	<u>Inside City</u>	<u>Outside City</u>
Base	3.04	6.08
0 - 20,000 Gallons Used	2.69 / 1,000 gal.	5.38 / 1,000 gal.
20,001 - 190,000 Gallons Used	2.42 / 1,000 gal.	4.84 / 1,000 gal.
190,000 - 490,000 Gallons Used	2.15 / 1,000 gal.	4.30 / 1,000 gal.
Over 490,000 Gallons Used	1.88 / 1,000 gal.	3.77 / 1,000 gal.

<u>Residential Collection Rates:</u>	<u>Inside City</u>	<u>Outside City</u>
Collection at Roadside	\$8 / mon.	\$15 / mon.
Collection at Door	\$23 / mon.	\$26 / mon.
2 Carts	N/A	\$22.50 / mon.
3 Carts	N/A	\$45 / mon.

<u>Commercial Collection Rates:</u>	<u>Inside City¹</u>	<u>Outside City²</u>
4 yard	\$52.50 / mon.	\$87.50 / mon.
6 yard	\$67.50 / mon.	\$102.50 / mon.
8 yard	\$82.50 / mon.	\$117.50 / mon.
Each Commercial Cart	N/A	\$15 / mon.

<u>Number of Customers:</u>	<u>Inside City</u>	<u>Outside City</u>
Water	24,442	14,968
Sewer	22,755	3,543
Solid Waste ³	22,768	8,664

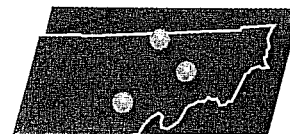
Sources:

- City of Johnson City Water/Sewer Department
- City of Johnson City Solid Waste Department

¹Does not include dumpster which can be purchased or rented.

²Includes dumpster which is furnished.

³Does not include garbage pulls, front loader or container rentals.



Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Board of Commissioners
City of Johnson City
Johnson City, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Johnson City, Tennessee (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2006. We did not audit the financial statements of the Johnson City Schools Site-Based Fund, a nonmajor special revenue fund, as of and for the year ended June 30, 2006, which represent 2%, 2% and 7%, respectively, of the assets, net assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the City's financial statements, insofar as it relates to the amounts included for the Johnson City Schools Site-Based Fund, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the City's management in a separate letter dated November 30, 2006.

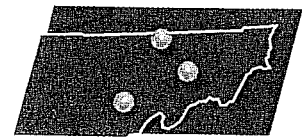
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers and Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

November 30, 2006



Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

Honorable Mayor and Board of Commissioners
City of Johnson City
Johnson City, Tennessee

Compliance

We have audited the compliance of the City of Johnson City, Tennessee with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Johnson City, Tennessee's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Johnson City, Tennessee's management. Our responsibility is to express an opinion on the City of Johnson City, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Johnson City, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Johnson City, Tennessee's compliance with those requirements.

In our opinion, the City of Johnson City, Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Johnson City, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Johnson City, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers and Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC

November 30, 2006

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

Section I - Summary of Auditors' Results

1. The auditors' report based on our audit and the report of other auditors expresses an unqualified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Johnson City, Tennessee (the "City").
2. One reportable condition disclosed during the audit of the financial statements is reported in the Schedule of Findings and Questioned Costs, which is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There are no reportable conditions relating to the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs that are required to be disclosed in accordance with section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were as follows:

<u>Program</u>	<u>CFDA Number</u>
Title I, U.S. Department of Education	84.010
Title II, U.S. Department of Education	84.367
Title II, U.S. Department of Education	84.318
Federal Transportation Administration	20.500
Federal Transportation Administration	20.507
Community Development Block Grant	14.218
National School Lunch Program	10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low-risk auditee.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

Section II - Financial Statement Findings

Current Year Findings:

No

Prior Year Findings Not Implemented:

98-1 Deficit Retained Earnings-Enterprise Funds (6-30-98, Report, Finding #2, Page 232):

Condition: The City has one enterprise fund which operated at a loss for the year and continued to have deficit net assets. Golf Courses Fund has continued to have higher expenses than revenues.

Criteria: Enterprise funds are required by State Statute to be self-supporting.

Effect: Without a realistic budget and adequate controls over the revenues and expenses, the deficit may continue to increase.

Recommendation: Revenues and expenses should continue to be reviewed to provide adequate income for the enterprise funds to be self-supporting.

Management's Comments: Financial statements for the Enterprise Funds are provided to the Board of Commissioners on a monthly basis. In addition, the Board is provided Statements of Cash Flows on a quarterly basis. Numerous discussions have transpired between the Board members and Management regarding the City's policy on golf services, with no conclusions having been made. The Solid Waste clean-up deficit continues to experience improvement and is expected to turn around in the short-term. City Staff will continue to bring these matters to the attention of the Board.

CITY OF JOHNSON CITY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

Section II - Financial Statement Findings

Prior Year Findings Implemented:

The following prior year findings have been corrected to our satisfaction:

Finding 98-1 Deficit Retained Earnings: Enterprise Fund: City Solid Waste
 (One of two Enterprise Funds with negative net assets in the prior year has been
 corrected.)

Section III - Federal Award Findings and Questioned Costs

There were no findings in regard to the major federal award programs audit.